Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	IS3.50	S.Arabia	Rls6.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	\$1.00	Switzerland	SFr2.20
Finland	Fmk7.00	Luxembourg	LFr48	Taiwan	NT\$65
France	FFr6.50	Malaysia	Rin4.25	Thailand	Bht50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK\$12	Netherlands	Fl2.50	UAE	Dh6.50
India	Rup15	Norway	Nkr7.00	USA	\$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,295 — Monday July 27 1987 — D 8523 A

Third World debt: forgiveness could pay off, Page 12

World News

French navy on 24-hour alert

France ordered its Mediterranean fleet to be ready to leave port within 24 hours because of increased tension in the Gulf. The Defence Ministry said the aircraft carrier Clemenceau, two frigates and a supply ship would be ready to leave the port of Toulon on Monday.

In the Gulf, Kuwait sought US approval to load a supertanker which was hit by a mine while flying the American flag as US and Kuwaiti experts considered a way to clear a key Gulf channel. Page 2

Red Cross in Beirut

Swiss Red Cross workers said they had no intention of leaving Lebanon despite a threat against Swiss interests by a group attempting to release a gunman who killed a French passenger at Geneva aiport last week.

Anti-Gandhi march

Police prevented 12,000 right-wing opposition protesters from reaching Indian Prime Minister Rajiv Gandhi's residence in New Delhi. The march was called to protest corruption in the government. Page 14

Tartars protest

Crimean Tartars who staged an unprecedented 24-hour demonstration at the gates of the Kremlin have accepted an offer to meet Soviet President Andrei Gromyko today. Page 3

OAU summit

The annual summit of the 50-member Organisation of African Unity opens in Addis Ababa today with South Africa, Namibia and the continent's foreign debts high on the agenda.

Sudan emergency

Sudan's government has declared a year-long state of emergency in an effort to salvage the crumbling economy, end market chaos and the disruption of public services.

Philippines Congress

The Philippines' newly-elected Congress convenes today to consider issues such as land reform, insurgency and US bases in the country. The opening of Congress is widely seen as the end of the transition from dictatorship to democracy.

Greek heatwave

Hospitals and clinics throughout Greece were on alert as the country sweltered for the seventh day. The official death toll from the heatwave was put at 322 with the temperature at 41 degrees centigrade (106 F), the highest in Europe.

Floods in Tehran

Floodwaters fed by torrential rain swept through north Tehran killing several people and causing heavy damage to property, the Iranian News Agency IRNA reported. On Saturday 147 people were killed in floods in eastern Iran.

Swapo detentions

Ten people affiliated with an opposition political party and a mine workers union were detained without charge in Arandis, Namibia, prior to attending a Swapo meeting.

Egyptian stabbed

An Egyptian financier, Mr Ahmes Kalifa, died after being ambushed in his London home by masked thieves who stabbed him in the face and chest and beat his wife and maid.

Ghana executions

Ghana executed by firing squad an unspecified number of people convicted of brutal armed robberies, Accra radio reported.

Tour de France

Stephen Roche, 27, became the first Irishman ever to win the Tour de France. He crossed the finishing line in the Champs Elysee only 40 seconds ahead of his closest riva, Pedro Delgado of Spain. Page 14

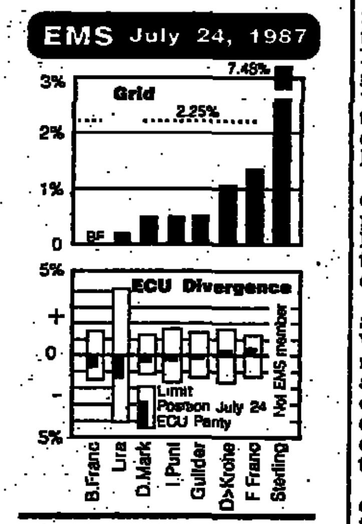
Business Summary

Hungary to legalise share ownership

HUNGARY'S Communist authorities are preparing a new companies law which will legalise private ownership and pave the way for the first stock market in eastern Europe. The authorities hope that the new law, together with tax reforms, will lead to a more efficient use of Hungary's corporate assets. Page 2

EUROPEAN Monetary System: Most currencies showed little overall change from the week before. The dollar finished little changed against the D-Mark. The Belgian franc remained comfortable with its position as the weakest member and the Belgian central bank reduced the Belgian discount rate to 7¼ per cent from 7½ per cent.

The French franc remained the most improved currency from central rates fixed at January's realignment, followed by the Danish krone.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (Ecu)

SOCIETE GENERALE de Belgique, Belgium's largest industrial and commercial holding company, confirmed it plans to raise capital via a rights issue this October. Page 15

BRITISH TELECOM, UK telecommunication group, plans to move into the development and manufacture of computer-based products in the UK and overseas. Page 14

CIVIL AIR TRANSPORT trade unions urged the British Government not to refer the merger of British Caledonian Airways and British Airways to the Monopolies and Mergers Commission, saying that this would be debilitating to both airline companies. Page 5

ASKO, fast-growing West German discount retailer, bought a 24.9 per cent stake in Massa, another large German retailer, which went public last year. Page 15.

IMMOBILIARE METANOPOLI, property subsidiary of Italian state holding company ENI, has had 12.5m of its shares placed with UK and international investors by British merchant bank J. Henry Schroeder Wagg. Page 15

HONG KONG and Shanghai Hotels group battle ended as predators agreed to sell much of their stake to Kincross, a consortium formed by the group's advisers. Page 18

TOKYO share prices closed slightly higher on selective buying in Saturday's half-day session with improvements in securities houses, banks and department stores. The Nikkei market average added 21.97 at 23,964.91, after Friday's record 906 gain, in moderate trading of 450m shares. Page 29

AUSTIN ROVER, UK car manufacturer, could have the future of its volume cars pressing plant at Swindon placed in doubt under a possible £30m ($48m) private sector investment deal between Jaguar cars and GKN engineering group. Page 5

Japanese urged to change arrogant view of world

BY IAN RODGER IN TOKYO

JAPAN'S foreign ministry has published a hard-hitting critique of the country's selfish policies and attitudes to the outside world, and called for radical changes to meet the country's new responsibilities as a "standard-bearer" of the international order.

"It is imperative in today's increasingly interdependent international community that we share in both the pain and the gain, and it is unacceptable that any one country should selfishly seek to profit at others' expense," the ministry's annual policy statement, known as the blue book, says.

The book, approved by the Japanese Cabinet yesterday, recognises that Japan's most pressing problem today is increasing economic friction with its main trading partners, and it gives warning that the world's economic development could be undermined if Japan erred in the handling of the problems created by its huge current account surpluses.

It also observes that Japan's responsibilities are increasing as the US declines from its position as the dominant economic power.

But the document is remarkable mainly for its blunt criticism of Japanese disdain and intolerance of the outside world and its urgent call for a radical revision of these attitudes.

"There have been some people who say that the Japanese have recently become more arrogant in their perceptions and behaviour. It is impossible either to improve ourselves or to win the trust of other nations unless we have the humility needed to accept other cultures and values and to respect diversity. Should parochial nationalism take hold, Japan could well find itself isolated in the international community."

The book says that Japan has a long tradition of receptivity to ideas from other cultures. "Yet the outflow of culture and information from Japan has been but a trickle in comparison to the flow into Japan, and we have not always been as receptive as we should have."

It is important that "both state and society become broad-minded and tolerant... and that our economic and social institutions, practices and even our thinking be made more open to the rest of the world." The paper dismisses the idea that Japan's distinctive identity would be lost in the process of becoming more open, arguing that the acceptance of others' values is an "indispensable prerequisite to the economic and social revitalisation of Japan."

The book calls in particular for greater tolerance toward neighbouring Asian countries. "Japan must be humbly aware and bear in mind that it has long benefited from the region's cultural heritage and that its relations have been marred by unfortunate events in the past."

Giovanni Goria: to be Italy's youngest-ever premier

Goria set to present Italian coalition

By Alan Friedman in Milan

MR GIOVANNI GORIA, Italy's Christian Democrat Prime Minister-designate, is expected to report to President Francesco Cossiga tomorrow that he has succeeded in forming a new five-party Italian coalition government.

Formal agreement was reached in a hastily-assembled summit meeting on Saturday of the leaders of the five parties of the fallen coalition - the Christian Democrats, Socialists, Republicans, Social Democrats and Liberals. Mr Goria is likely tomorrow evening to present President Cossiga with a list of cabinet ministers and could then present the new government to parliament as early as Thursday.

Mr Bettino Craxi, the former prime minister and Socialist party leader, yesterday guaranteed his party's "full support" for a government which most politicians say will be lucky to survive until next April or May, when the Christian Democrats hold their party congress.

The government, which will see Mr Goria becoming Italy's youngest ever premier - he is 44 this week - could run into trouble this autumn, however, if expected referenda are held on the contentious issues of nuclear energy and judicial reform.

Mr Craxi, who expressed disappointment that his allies in the tiny Radical Party were not invited to join the coalition, on Saturday told the bearded Mr Goria: "You wanted the bicycle. Now pedal."

The new Goria government is expected to see Mr Giuliano Amato, right-hand aide to Mr Craxi, installed as deputy Prime Minister and Treasury Minister (Mr Goria's old job).

Mr Goria was named premier-designate on July 13 after Mr Craxi posed an effective veto against the candidacy of Mr Ciriaco De Mita, the Christian Democrat leader

Brussels poised to order probe into Fiat-Alfa takeover

BY TIM DICKSON IN BRUSSELS AND ALAN FRIEDMAN IN MILAN

THE EUROPEAN Commission is poised to open an investigation into last year's takeover by Fiat of Alfa Romeo. The investigation is likely to focus on whether Fiat paid a price below the market value in its takeover of Alfa, the Italian state-owned luxury car company.

The inquiry is also likely to examine whether Fiat received preferential treatment from the Italian Government during the takeover. This would have been contrary to Community rules.

The inquiry is expected to be approved at a meeting on Wednesday of the 17-man Commission. It is a sensitive matter and the two Italian commissioners are believed to have tried to delay the issue, but at the weekend they appeared resigned to the investigation going ahead.

The investigation follows recent unsuccessful attempts by the Commission to obtain a satisfactory response from Fiat and the Italian Government on the controversial takeover battle which saw Ford of the US lose the fight to the Turin-based Fiat.

If Italy's replies to the investigation, which is based upon Article 93 of the Treaty of Rome (concerning state aid to industry) do not satisfy Brussels, the Commission could impose financial sanctions on Italy and could bring the Rome Government before the European Court of Justice in Luxembourg.

The investigation will focus on a European Commission estimate that Fiat paid an effective price of just L400bn ($298.5m) to acquire 100 per cent of Alfa Romeo. Ford, which had negotiated for five months before the last-minute Fiat offer, had been prepared to pay L340bn for an initial 20 per cent stake in Alfa Romeo, with plans to acquire majority control within three years, according to a confidential Italian government document.

Fiat said on Friday it had no formal comment except to confirm a statement in its newspaper subsidiary, La Stampa, in which the company claimed that it had "nothing to hide".

A Fiat spokeswoman said, however, that Fiat had agreed to pay L1,050bn over eight years until 1995. Fiat also agreed to assume around L750bn of Alfa debt. Fiat said the EC investigation was "routine".

Preliminary Brussels inquiries, however, are understood to indicate that the Italian government's willingness to allow payment over eight years reduced Fiat's effective cost to just L400bn. This is based on Commission calculations

EC representatives, Italian government officials, executives from Fiat and from state holding group IRI-Finmeccanica which sold Alfa, are likely to meet in September to discuss the takeover.

Fiat has placed Alfa Romeo in a new company called Alfa-Lancia and mapped out an ambitious L8,000bn plan for strengthening its challenge in the international luxury car market

US trade policy unchanged by Baldrige death

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

US TRADE policy is unlikely to be changed despite the death at the weekend of Mr Malcolm Baldrige the Secretary of Commerce, one of the country's leading trade policy makers.

But President Ronald Reagan has lost an official whose credibility on Capitol Hill has already helped the Administration to modify the sweeping reform of trade legislation, approved by the Senate and the House, to make it more acceptable to the White House.

Within the Administration itself, Mr Baldrige had been perceived to carry considerable weight with Mr Reagan personally on trade policy issues since the huge US trade deficit became a top Administration priority in 1985.

The fight Mr Baldrige led for open yet fair trade looks set to be continued by the Administration's two other chief trade officials, Mr James Baker, the Treasury Secretary, and Mr Clayton Yeutter, the US Trade Representative.

Mr Baldrige (64) the quiet spoken former chief executive of a New England brass manufacturing company, who had been Commerce Secretary since Mr Reagan took office in 1981, died on Saturday of an apparent heart attack, hours after a fall he had been riding while practicing for a rodeo event reared up and fell on him.

Mr Baldrige, the son of a member of the House of Representatives from Nebraska, had been a rodeo enthusiast for much of his life and in 1980 had been named Professional Rodeo Man of the Year.

He is likely to be succeeded at the Commerce Department's by Mr Bruce Smart, the Undersecretary for International Trade, a former chief executive at Continental Group, a leading US manufacturing company.

Malcolm Baldrige: leading policy-maker

Paying tribute to Mr Baldrige, President Reagan said: "The nation has suffered a great loss with the untimely death of Malcolm Baldrige."

Mr Baldrige's tough stance on the need for Washington to pressure its trading partners to abandon allegedly unfair trade practices and open up their markets to US exports led some observers to see him as a protectionist. But others maintain that description misinterpreted his approach to trade policy.

From the day he took office he was, rather, a strong advocate for the interests of US business. So he pressed for the deregulation of business, and for the reform of export controls on trade with Communist countries to facilitate exports of goods which

Continued on Page 14

Cable and Wireless to press compromise deal in Tokyo

BY IAN ROGER IN TOKYO AND DAVID THOMAS IN LONDON

THE ROW between Britain and Japan over the attempt by Cable and Wireless to enter Japan's telecommunications market is likely to flare up again if an initiative tabled by the UK telecommunications group at a meeting today in Tokyo fails.

Cable and Wireless is part of a consortium, International Digital Communications (IDC), seeking a licence to run an alternative international telecommunications network in Japan to that offered by the present monopoly operator, Kokusai Denshin Denwa (KDD).

The consortium wants, as part of its service, to build a fibre optic cable across the Pacific between Japan and the US. Britain's Cable and Wireless holds a leading 20 per cent stake in IDC.

Japan's Ministry of Posts and Telecommunications has been trying to persuade the Cable and Wireless consortium to merge with a rival all-Japanese consortium, International Telecoms Japan (ITJ), which wants to lease circuits from KDD, rather than build its own cable.

The merger proposal has been fiercely resisted by the IDC consortium, with the backing of the UK and the US governments, on the grounds that it was designed to dilute the interests of foreign companies in Japan's new internationaltelecommunications service.

The dispute was one of several which threatened to escalate into a major trade war between Japan and its Western trading partners earlier this year.

However, in what was widely seen as a conciliatory move, Mr Yasuhiro Nakasone, the Japanese Prime Minister, said before the Venice summit that there was no objection to separate licences being awarded to each consortium.

The IDC consortium has since become increasingly frustrated with the lack of progress. It is taking what it regards as a compromise proposal, designed to meet the basic idea of a merger, at today's meeting in Tokyo.

Under the proposal, the cable would be built and run by a separate company and members of the two consortia, either individually or collectively, could decide whether to send traffic it.

The Cable and Wireless consortium believes there will be little alternative to reactivating the Western political pressure on Japan if this initiative is rejected. However, until now members of the ITJ consortium have shown little interest in wanting to become involved with a new trans-Pacific cable.

Cable and Wireless is eager to see the cable project go ahead, as part of its plan to build a new worldwide independent telecoms network, the so-called Global Digital Highway. It wants a significant stake in both the cable company and the company that receives the new Japanese franchise for an international telecoms service.

Until now, Cable and Wireless has been sceptical about the merger proposal, fearing that it was aimed mainly at reducing foreign involvement in the project to insignificant levels.

Last spring, it successfully enlisted the support of the UK Government for its cause. The Prime Minister, Mrs Margaret Thatcher, complained directly to the Japanese Prime Minister that this appeared to be another example of Japan refusing to open its markets to foreign participation. The US Government also complained at the highest levels.

UK airline close to $2bn deal

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN LONDON

BRITISH AIRWAYS, the UK airline, is close to a $2bn decision on replacing its ageing fleet of 19 Lockheed TriStar aircraft with 10 short-to-medium range airliners and 10 long-range jets.

Competition to win the deal has been fierce between Airbus, the European consortium, and Boeing and McDonnell Douglas of the US.

Although the airline is still studying the manufacturers' latest offers, the board is likely to consider recommendations from the executive management at a meeting in early August.

The choice for the short-to-medium range replacement for the TriStar, covering 10 aircraft worth about $1bn, rests between the Airbus A-300-600 and the Boeing 767, both twin-engined, wide-bodied airliners, and both available for delivery by 1991 at the latest, the timescale British Airways has set.

The airlines' preference is for the Boeing 767, because it can be fitted with the latest version of the Rolls-Royce RB-211 engine, the 524-D4D. This would give compatibility of engines, since the TriStar already uses earlier versions.

By comparison, the Airbus A-300-600 is fitted with either US General Electric or Pratt & Whitney engines.

The replacement choice for the long-range TriStars, involving another $1bn for 10 aircraft, is between the four-engined Airbus A-340 and the McDonnell Douglas MD-11.

Both have non-stop ranges of several thousand nautical miles, making them suitable for

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CONTENTS

OVERSEAS NEWS

Damaged supertanker takes on load

BY ANDREW WHITLEY IN DUBAI

THE damaged Kuwaiti supertanker hit by an Iranian mine in the northern Gulf last Friday began loading Kuwaiti crude oil yesterday prior to heading back towards the Arabian Sea under US Navy escort later in the week as scheduled

US Navy officers acknowledge yesterday that the entire operation scheduled to last 12 months, could have been jeopardised at the outset by the unexpected threat posed by the discovery of mines in deep water on the Arabian side of the Gulf.

Rear-Admiral Harold Bernsen, commander of the enlarged US Middle East fleet based in Bahrain, admitted that the convoy had been taken by surprise when the Bridgeton struck a mine in a normal shipping channel 18 miles west of Iran's Farsi Island

"We have never seen a moored mine in that area" said the admiral, adding: "We don't normally sail into a minefield."

US Navy divers temporarily based in Kuwait will survey in the next few days the passage which the Bridgeton, its companion tanker the Gas Prince and their warship escorts are likely to take on their return journey but considerable nervousness about the warships' vulnerability to freshly laid mines was evident yesterday.

"Right now I certainly wouldn't want to go back through the area we were in on Friday," said Captain David Yonkers of the guided missile destroyer USS Kidd. Admiral Bernsen also said that a mine-free route would have to be cleared before the escort operation could resume

The Pentagon's problem is its own lack of mine-hunting capacity in the area. Instead, it will have to rely on newly-delivered Saudi minesweepers whose crews are still under training by the US

Shipping agents said yesterday they expect the Bridgeton to take on only part of its capacity, for transhipment to other tankers once it reaches Khor Fakkan in the Gulf of Oman, so as to complete the full journey cycle. The reflagged Kuwaiti vessel is then likely to make its way to Dubai for repairs, which could take up to a month

Divers who examined the 401,000-tonne Bridgeton over the weekend reported that the explosion had blown a large hole at the bottom of the tanker, destroying one of its sealed oil compartments and possibly damaging others nearby. The force of the blast was such that within two minutes the compartment had filled to sea level.

FRANCE yesterday ordered its Mediterranean fleet to be ready to leave port within 24 hours because of increased tension in the Gulf, the Defence Ministry said, Reuter reports from Paris.

A ministry spokesman said the aircraft carrier Clemenceau, two frigates and a supply ship would be ready to leave the port of Toulon from today.

But the stand-by did not necessarily mean the fleet would sail.

France had ordered the 24-hour alert as the latest step in a worsening diplomatic row with Iran.

The alert was "a precaution in view of escalating international tension, particularly in the Middle East and in the Gulf."

Gulf ministers back UN resolution

By Finn Barre in Taif

THE GULF Co-operation Council foreign ministers broke up their meeting in the Saudi Arabian summer capital of Taif yesterday after endorsing the UN Security Council resolution on the Iran-Iraq war

The foreign ministers of the six members of the GCC — Bahrain, Saudi Arabia, Oman, Kuwait, Qatar, and the United Arab Emirates, approved UN Security Council resolution no 598, which called on Iran and Iraq to end the conflict, withdraw to international borders, and settle their dispute through negotiations

The group, headed by the UAE Minister of Foreign Affairs Mr Rashid Abdullah al-Nuaimi, then expressed its readiness to help UN Secretary-General Javier Perez de Cuellar in his efforts to find an end to the conflict

The group did not overtly endorse the US or other powers' presence in the Gulf but instead obliquely conferred approval by stating that it supported Kuwait's efforts to secure safe passage for its tankers.

Prince Saud al-Faisal, the Saudi Foreign Minister said the GCC would not take any steps in case Iran refused to come to terms with the resolution but said the UN Security Council might resort to procedures stipulated in its charter. This again, shows tacit approval for any further steps taken by the UN concerning the war.

Reuter adds: Iran said yesterday its troops killed 1,100 Iraqi soldiers over the weekend on the central Gulf war front where sporadic heavy fighting has been reported for the past two weeks

Iran's national news agency IRNA, received in London, said Iranian forces repulsed Iraqi efforts to capture four heights in the Meimak area. It said Iranian helicopter gunships swooped on Iraqi positions destroying 30 bunkers, two ammunition dumps and several armoured vehicles

Budapest set to legalise private share ownership

BY SIMON HOLBERTON IN BUDAPEST

THE COMMUNIST authorities in Hungary are preparing a new company law which will legalise private ownership and share ownership and pave the way for the first stock market in Eastern Europe.

Faced with a need for industrial structural adjustment which has been brought about by a balance of payments crisis, the authorities in Budapest are once again looking West for solutions to their economic problems.

Along with reforms of the taxation system, which will come into effect next January and will mean that taxes on profits fall from around 90 per cent to 45 to 50 per cent, the authorities hope the new companies law will lead to a more efficient and profitable use of Hungary's corporate assets.

According to Dr Jeno Zanyi, vice-president of the Hungarian Chamber of Commerce, the new law will be presented to parliament next June and will come into force on January 1 1989

The law will provide for workers to earn equity in the companies for which they work and for the creation of joint stock companies part of whose shares could be offered to the public.

Dr Zanyi said he could also envisage a situation where employees took over an ailing company, or a superfluous division of a healthy company such as happens in the West through management buy-outs

"Certain pre-conditions for such a solution are developing," he said.

But some economists in Budapest remain sceptical about the results of the planned change to the companies law. The government recently increased the ceiling on the number of people able to work in small private co-operatives to more than 20 However according to Mr Marton Tardos, head of the Institute of Economics, the old ceiling was rarely if ever met because of the perceived political risk involved in such private ventures.

In any event Hungary has gone further than any other Eastern European country in the development of what it calls a "socialist market."

Since 1968 the state has not attempted to plan the output of individual enterprises, but has concerned itself only with the planning of macroeconomic targets

Also, the degree of private ownership, such as of housing and agricultural land, is unprecedented in the Eastern bloc.

Hungary already has a fledgling bond market, where securities issued by state companies are traded The authorities claim that 4 to 5 per cent of the population own bonds, which attract a higher interest rate than bank savings

This market has recently been reorganised to "broaden, unify, enliven, and co-ordinate the trade in securities" by producing statistics on turnover, ownership and securities on issue

Hungarian rich widen cash gap with poor

By Leslie Colitt in Budapest

THE RICH in reform-minded Hungary are getting richer, the poor are getting poorer and the middle class is "thinning out" Hungarians have long suspected this alarming news but they now have the evidence presented by no less an authority than the Hungarian trade unions.

A senior official of the unions' theoretical research institute, Mr Otto Pirityi, says the "rush for money" has become a "massive phenomenon" in Hungary and an ever more conspicuous one.

In the process of personal enrichment he notes "polarisation" has taken place between the rich and the growing number of Hungarians who are "very poor" and the thinning middle class.

Mr Pirityi bemoans the inequalities which have arisen in utilising the ever widening chances to make money. But in an interview with the Budapest economic weekly Otlet he notes that he is wholly in favour of lavishly rewarding those who display the most individual initiative

"Justice cannot be done for everyone" he explains. "The possibility of the rush for money is open to all."

Mr Pirityi's remarks reflect a growing realisation by the official trade union that it has little choice but to support the Communist leadership's drive for further economic reforms. Inevitably these will widen the income gap between the top, middle and bottom of Hungarian society

The trade union official says that about 2m of 10.5m Hungarians are rich, adding that being rich in Hungary is different from the same attribute in the West.

Rich Hungarians have sufficient surplus income to save money, buy a well-appointed, comfortable flat, a car and a weekend house with a plot of land around it, he says. However, only the top 5 per cent to 10 per cent of them are "truly rich"

"Money keeps flowing to them," he notes, "but they go through the money fast in spending sprees."

As for possible resentment among the have-nots, Hungarians gaze with wonder at the expensive Western cars driven by the growing number of private entrepreneurs in Hungary

However, they appear to be more admiring than resentful of their high rolling countrymen

SHIPPING REPORT

Surge in oil demand lifts tanker rates

BY KEVIN BROWN

FEARS of a confrontation in the Gulf between Iran and the US has led to a surge in demand for crude oil and an increase in freight rates for tankers brokers said.

The increase in demand was helped by a slight fall in the price of oil, and a shortage of available tonnage for loading. Some brokers said it was likely that the market might have peaked however

E A Gibson the London brokers, said there were only four very large crude carriers—ships of more than 200,000 deadweight tons—available in the Gulf for July loading, and only around 20 up to the middle of August.

Among the most recent fixtures, Worldscale 95 was paid for a cargo of 250,000 tonnes from Kuwait to Singapore at the end of July and Worldscale 64 for a cargo of 300,000 tonnes for Brazil discharge Rates of around Worldscale 60 were being paid and the benefits of these higher levels were filtering through to both medium sized and smaller tonnage.

An Italian charterer paid Worldscale 100 for a cargo of 134,000 tonnes, and another owner fixed a 78,000 tonne ship at Worldscale 110 for Mediterranean discharge.

Galbraith's said an American oil major seeking ships in the 240,000-260,000 deadweight tons class for mid-August loading received offers of around Worldscale 85 for a trip to the Red Sea, indicating that owners are willing to accept prevailing rate levels for the forward position.

However, Galbraith's said there was a possibility that charterers would postpone fixing all but immediate requirements

In the dry cargo markets, rates for Panamax and Capesized vessels continued to rise, with the key Gulf-Japan rate reaching around $16.

French charge more in terrorism case

BY GEORGE GRAHAM IN PARIS

THE FRENCH judge investigating last year's wave of terrorist bomb attacks in Paris, has charged two more Lebanese with conspiracy to commit terrorist acts

The move brings Judge Gilles Boulouque's investigation a step closer to Mr Wahid Gordji, the Iranian interpreter who has been hiding in the Iranian embassy for the past month and whose refusal to answer Mr Boulouque's questions sparked the diplomatic crisis between France and Iran.

One of the two men charged, is believed to have worked both for the Iranian embassy and for Mr Gordji directly. A garage mechanic, he is suspected of having worked on the BMW car used in the bombing of a crowded Paris shopping street, which killed seven and injured 51.

Eight people, mostly of Lebanese or Tunisian origin, have already been charged with terrorism offences following a series of raids in March and April which dismantled two suspected terrorist networks.

Mr Gordji is wanted for questioning only as a witness, but France has refused to shift from its position that he must appear before Judge Boulouque before he can be permitted to leave the country

Iran meanwhile, insists that Mr Gordji must be treated as a diplomat even though he does not have formal diplomatic status, and has made accusations against a French diplomat in Tehran as a bargaining counter.

French officials in Paris yesterday saw no sign of any quick end to the crisis. A week after the two countries broke off diplomatic relations, France and Iran have still not reached formal agreement on representation of their interests in each other's capital by, respectively, Italy and Pakistan.

US to increase minesweeper force, says Weinberger

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

THE US Defence Secretary Mr Caspar Weinberger said yesterday that the Defence Department will increase the number of minesweepers operating in the Gulf following the attack on the US tanker Bridgeton last week

Challenged repeatedly in an interview on US television to explain why the navy force escorting the former Kuwaiti tanker which had been re-registered under the US flag had not included a minesweeper Mr Weinberger conceded that this section of the Gulf sea route had not been swept because it was not an area in which mines had previously been found.

The Reagan Administration has been under heavy political fire on Capitol Hill for agreeing to reflag the Kuwaiti ships. Its critics have charged that the decision tilts US policy towards Iraq in the Iran-Iraq war because Kuwait is an Iraqi ally and that as a result it could lead to a confrontation and perhaps war, with Iran

The fact that the first escorted ship should have been proved to be so vulnerable is profoundly embarrassing to the Administration, not least because of the perception that the escort mission should have forseen and been better prepared for a mine attack en route

Mr Les Aspin, the chairman of the House Armed Services Committee, said yesterday that the mine attack underscored a more fundamental criticism of the reflagging policy, namely that by tilting towards Iraq the US had exposed itself to terrorist attacks from Iran

Were this to happen, he argued, it would provoke a debate in the US about whether to maintain the new US commitment to escorting the reflagged vessels. He argued that it would have been better from the beginning to have tried to secure a multilateral approach to the task of protecting shipping in the Gulf.

The prospect of a US withdrawal from its increased commitment in the Gulf profoundly disturbs Middle East experts. Some argue that because the Gulf is so vital an American and Western interest any retreat would be another blow to American credibility

Mochtar in bid for Kampuchea peace

BY JOHN MURRAY BROWN IN JAKARTA

INDONESIA'S Foreign Minister, Dr Mochtar Kusumaatmadja, makes his long-delayed trip to Vietnam today in an effort to end the eight-year-old conflict in Kampuchea. His two-day visit to Ho Chi Minh City for what will be his first talks with Vietnam's new leadership, is the latest bid to start up negotiations between the Vietnamese-backed Heng Samrin regime in Phnom Penh and the three-party democratic coalition of Kampuchea, which is recognised by the United Nations.

While ruling out any "quick solution, Dr Mochtar nevertheless said he was "cautiously optimistic." The minister, who acts as special envoy to Hanoi for the Association of South East Asian Nations (Asean) confirmed he was going with "new ideas," relayed to him by the former leader of the coalition, Prince Norodom Sihanouk, when they met recently in the North Korean capital, Pyongyang.

The coalition's original eight-point peace plan called for withdrawal from Kampuchea of an estimated 140,000 Vietnamese troops, to be followed by UN-supervised elections.

Prince Sihanouk's decision to seek a year's leave of absence from the leadership is seen as a move to distance himself from the Pol Pot faction of the Khmer Rouge, the coalition's largest guerrilla group which is now fighting from bases near the Thai border. Alleged atrocities during 1975-78 by the Pol Pot regime in Kampuchea prompted Vietnam's original invasion. Pol Pot's continued presence in the coalition remains the main stumbling block to peace talks.

The Soviet Union, which supports Vietnam with both economic and military assistance and is therefore seen as a key player in any likely resolution, last week welcomed Asean's latest initiative in a statement by Mr Mikhail Gorbachev in an interview with a leading Indonesian newspaper.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, toured the region in March to sound out opinion within Asean and among its own allies in Communist Indochina — Vietnam, Kampuchea and Laos. The Soviet Union is making a concerted drive to improve regional ties as laid out in a speech in Vladivostock by Mr Gorbachev last July.

Sudan declares year-long state of emergency

SUDAN'S GOVERNMENT has clared a year-long state of emergency in a last-ditch effort to salvage a crumbling economy and curb social unrest, but diplomats said the move was unlikely to produce significant results, Reuter reports from Khartoum.

A statement by the President of the Supreme Council, the collective head of state, said the emergency was imposed to end market chaos, illegal hoarding of essential foodstuffs, black-market dealings and smuggling.

President Ahmed Ali al-Mirghani said it was also designed to combat armed robberies widespread in Sudan's southern and western provinces, illegal possession of arms and the disruption of public services. But diplomats said they were puzzled by the announcement since a state of emergency, imposed when former President Jaafar Nimeiri was ousted in a military coup in April 1985, had never been lifted.

The announcement followed a wave of strikes by public service workers in Khartoum, a general strike in Bahr al-Ghazal province in the south and demonstrations elsewhere against the Government's failure to improve living conditions.

Israeli plan to help farm settlements

By Our Correspondent in Jerusalem

ISRAEL'S Knesset Finance Committee last week approved a Shl 1.3bn ($810m) rescue plan for the country's debt-ridden agricultural settlements, but it is still unclear whether the banks will agree to its terms.

The committee called on the banks and other major creditors on Thursday to wipe out Shl 424m ($265m) of the approximate $1bn in debts accumulated by Israel's "moshavim"—communal settlements comprised of small, individual farms.

Providing they agree, the Treasury will lend the banks about $430m to allow them to reschedule another $530m in short-term debts over a period of 15 years at 6.7 per cent interest.

A spokesman for a leading Israeli bank said yesterday: "As we have not yet been consulted, it is still too early to say what we will do." Other banking sources have privately expressed their indignation at the Finance Committee for its unprecedented intervention in their affairs.

According to a Treasury official, if the banks decide not to go along with the programme, the Finance Committee will have no choice but to devise another solution

The problems afflicting the moshavim where 27,000 families reside, can be traced back to the late 1970s, the days of rocketing inflation, when the country's co-operative settlements went on a borrowing spree

Also hit hard were Israel's once-prosperous kibbutzim which, to preserve the value of their assets, began investing in the grey financial markets, where they lost tens of millions of dollars

The Government several months ago approved a $160m debt rescheduling programme for the United Kibbutz Movement, the largest of the kibbutz federations.

The Finance Committee has made its current aid package to the moshavim conditional on the dismantling of at least 30 of the worst-off farm co-operatives

Aquino makes insurgency penalties tougher

BY RICHARD GOURLAY IN MANILA

PRESIDENT Corazon Aquino used the last hours available for her to legislate by decree yesterday to sign 42 executive orders including one toughening penalties for association with the country's Communist-led insurgents and another establishing a citizen's army

Mrs Aquino loses her powers of executive fiat today with the opening of the first democratically elected Congress to sit for 15 years. She is due to make a key state-of-the-nation address to the joint houses outlining the programme she would like the 200 legislators to support

Over the past week, Mrs Aquino has signed on average 10 executive orders a day, many of which were little more than reorganisations of government departments and legal recognition of ad hoc bodies. One of the key executive orders covered a controversial land reform programme which has raised howls of protest from landowners and peasants. Demonstrations against the programme are expected near the refurbished National Assembly where the joint session of Congress will be held.

The flurry of legislation covered three important areas. By increasing the penalties for association with the Communist-led New People's Army guerrillas from a maximum of 12 years imprisonment to life, Mrs Aquino has effectively ruled out the possibility that the Communist Party of the Philippines will be legalised. Some Senators and observers believed such legislation could deepen rifts in the Communist movement and help to end the 18-year-long insurgency.

Mrs Aquino also allowed for the formation of a 1m-strong citizen's army which will be trained by and will fight beside the military. This could pave the way for disbanding the 65,000-strong paramilitary Civilian Home Defence Force which has a badly tarnished human rights record. She also decreed that local elections for mayors, governors and other officials would take place in November though she did not say when.

The President also removed from the statutes a decree signed by former President Ferdinand Marcos calling on all citizens to plant one tree each every year. The order was clearly never followed and was beyond the means of most poor Filipinos.

'No pre-conditions' for Israel-Moscow ties

MR SHIMON PERES, the Israeli Foreign Minister, yesterday said Israel had set no preconditions for the resumption of diplomatic ties with the Soviet Union and the Jewish state expected the same attitude from Moscow Reuter reports from Jerusalem.

"Israel sets no preconditions to the re-establishment of normal diplomatic relations and expects no such preconditions from the Soviet side," Mr Peres said.

Moscow severed diplomatic relations with Israel during the 1967 Middle East War, but has indicated that it may be considering resuming relations.

A Soviet consular delegation, the first official mission to visit Israel, is in Jerusalem with the declared aim of surveying property belonging to the Russian Orthodox Church and renewing passports of Soviet citizens.

Many Israelis, however, see the visit as a sign of a gradual thaw in relations between the two countries. Poland has opened a diplomatic interest office in Tel Aviv and Hungary has recently sought expanded commercial ties with the Israel.

Soviet Jewry activists have protested against the visit and have demanded that Moscow allow unlimited Jewish emigration before Israel agrees to the resumption of relations.

The Foreign Ministry said the Government thought the resumption of ties was a "good way to influence the Soviet Union" to allow free Jewish emigration.

Singapore pressed to free 15 accused of subversion

BY RICHARD GOURLAY

AN ASIAN human rights group yesterday urged the Singapore Government to release or bring charges against 15 people being held under internal security laws for involvement in an alleged Marxist plot to subvert the state. Some of the detainees, who include lawyers, students and a Harvard Business School graduate, have been held without charges since May 15.

The Regional Council on Human Rights in Asia, meeting in Manila, also instructed a former Singapore Member of Parliament, Mr J. V Jeyaretnam, to bring a resolution denouncing the Singapore Government before the United Nations Commission on Human Rights which meets in Geneva from August 10

A resolution passed by the human rights group said there were "serious doubts about the credibility of the Government's assertions that the arrests were necessary for the security of Singapore. The various statements of the Singaporean Government have not revealed that any of those arrested have either resorted to or attempted to resort to organised violence."

The Regional Council on Human Rights in Asia is limited to consultative status at the UN Commission on Human Rights. As a result, it will have to find a member sponsor if the resolution is to be debated.

Last May Mr Jeyaretnam presented the detainees' case to the Australian Foreign Minister and to Mr George Shultz, the US Secretary of State, during the Asean foreign ministers' meeting. Both mentioned their concern to the Singapore minister

FINANCIAL TIMES
Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F Barlow, R.A.F. McClean, G.T.S. Damer, M.C Gorman D.E.P Palmer, London Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main Responsible editor: D. Albino, Frankfurt/Main Guiollettstrasse 54, 6000 Frankfurt am Main 1 © The Financial Times Ltd, 1987
FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays U.S. subscription rates $365.00 per annum Second class postage paid at New York, N.Y and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y 10022

Ugandan budget seeks to boost industrial growth

BY OUR CORRESPONDENT IN KAMPALA

President Museveni: re-think of economic problems

IN A budget which expatriate businessmen say is aimed at stimulating economic growth, the Ugandan Government has introduced measures to boost the country's tiny industrial sector improve roads and transport, and greatly broaden its own tax base.

It has also raised public wages by another 50 per cent, promised big education subsidies and abolished duty and sales tax on salt soap, sugar and paraffin To offset this, taxes on beer and cigarettes have been raised, along with a small increase in the cost of fuel.

The budget is the first since President Yoweri Museveni announced a $176m agreement with the World Bank and International Monetary Fund on May 15 It represents a major re-think in economic policies when compared with Mr Museveni's first budget in August, 1986, which rejected IMF guidelines.

Last Friday's budget suspended import duties for 1987 1988 on all industrial raw materials and new machinery Indigenous companies need not pay duty for importing road equipment, and duties on some spare parts and vehicles such as lorries, pick-ups and mini buses have been reduced.

In an effort to encourage much-needed investment, interest rates have been slashed from 38 per cent to 22 and 25 per cent on medium- and long-term loans and from 42 per cent to 30 per cent on most short-term borrowing

Dr Crispus Kiyonga Uganda's Foreign Minister announced sweeping tax reforms designed to make income tax realistic after years of tax falling far behind inflation The Ugandan Government has derived over half its annual revenue and 95 per cent of its foreign earnings from peasant coffee farmers. New, relatively high, taxes are to be levied on cattle traders, ranchers, dairy farmers and fishermen. Retailers, restaurant owners, professionals and other businessmen will all face long overdue tax increases with the highest increases in urban areas.

The budget maintained an exchange rate of 60 Ugandan shillings to the US dollar but advocated a policy of deficit spending with a shortfall of 8.6bn shillings, which Dr Kiyonga hopes will be covered by more external loans and grants.

No figure was given for defence spending, but Kampala's government paper reported that the National Resistance Army received "the lion's share" of the budget's 53.2bn shillings, which is divided almost equally into recurrent and development expenditure.

This comes at a time when the NRA has launched big operations to curb intensified rebel activity in Eastern Uganda, near the Kenyan border Continuing security problems could well be a decisive factor in government spending for the coming year

The budget has proved popular among many ordinary Ugandans, who have a hard time making ends meet, but some observers feel that given the difficulty of enforcing taxation the Government has made more concessions than it can afford.

There are signs that inflation, which ground to a halt after the IMF agreement, may creep up on the budget. The unofficial currency market that closely reflects inflationary trends blossomed last week with the cost of the dollar rising sharply from about 90 shillings to more than 120 shillings

Although this may have been artificially inflated by local demand from Moslems buying hard currency for pilgrimage to Mecca, the loss in value of the new Ugandan shilling is already a cause for concern

Dr Kiyonga also noted that Uganda's spending power is likely to be constrained by the current low world prices for coffee.

OVERSEAS NEWS

Gromyko to meet protesting Tartars

CRIMEAN TARTARS who staged an unprecedented 24-hour demonstration at the gates of the Kremlin at the weekend will have a meeting with President Andrei Gromyko today, one of their leaders told Reuter yesterday.

Mr Reshat Dzhemilyov, a Tartar activist for three decades, said the demonstrators dispersed yesterday afternoon after accepting a Kremlin offer of a meeting with Mr Gromyko relayed by the Interior Minister, Mr Alexander Vlasov. He said some protesters heard Mr Vlasov talking to Mr Mikhail Gorbachev over his car telephone during discussions in the Red Square area last night.

The demonstrators, who are demanding the right to re-establish a national homeland in the Crimea from where they were deported by Stalin in 1944, had earlier chanted "Gorbachev, Gorbachev" and asked to meet him.

"But we decided we should see Gromyko. He is after all the head of state and could have important things to say to us," Mr Dzhemilyov, a 56-year-old construction engineer, said over the telephone.

Mr Gromyko was named last Thursday as head of a government commission, set up after an appeal from four prominent writers including poet Yevgeny Yevtushenko, to review the case of the Tartars whom Stalin accused of collaborating with the Nazis.

"We place a great deal of hope in Gorbachev," said Mr Dzhemilyov. "We will be very happy if we get a good response to our demands from Gromyko."

Many of the demonstrators, who first gathered on the cobbles behind the 15th century St Basil's Cathedral on the edge of Red Square on Sunday afternoon, carried portraits of Mr Gorbachev and Lenin.

Mr Dzemilyov said that, apart from a scuffle on Sunday night when police prevented the Tartars moving on to Red Square itself, the authorities had treated the protesters with respect. "They made no attempt to intimidate us," he said.

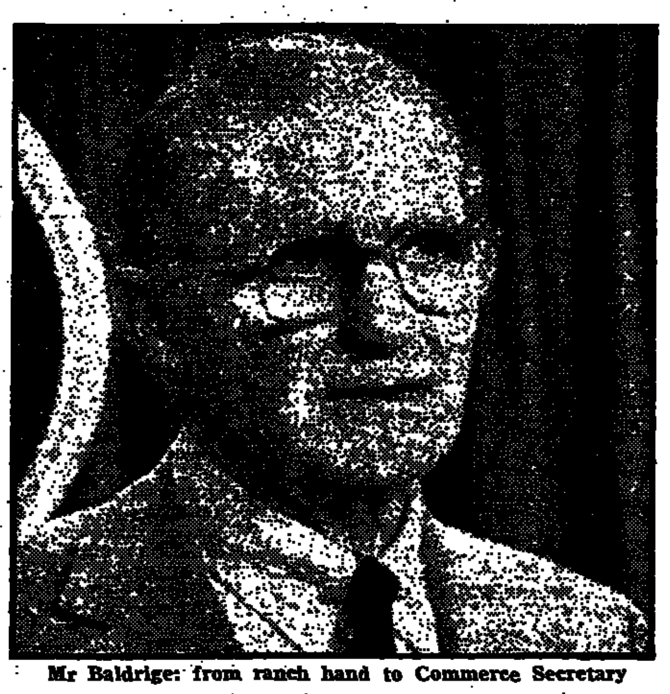
Obituary: Malcolm Baldrige

Tough talker with a low-key style

MR MALCOLM BALDRIGE, who died yesterday from an apparent heart attack while calf-roping at a rodeo event in California, rose from a dollar-a-day ranch hand to become US Commerce Secretary. He was 64.

The son of a Republican congressman from Nebraska, Mr Baldrige's low-key style made him a well-liked figure on Capitol Hill. That quiet style, however, belied his reputation as a tough, effective negotiator who travelled the world in an effort to open foreign markets to US industry.

A strong advocate for the Reagan Administration's policies of free trade since he became Secretary of Commerce in 1981, Mr Baldrige repeatedly warned Japan and other nations that he would personally recommend retaliatory trade legislation if they did not improve access to markets for US companies. The battle for expanded markets makes up a central part of the Administration's efforts to reduce the $166.3bn US trade deficit.



Mr Baldrige: from ranch hand to Commerce Secretary

Mr Baldrige, an original member of President Ronald Reagan's Cabinet, rose to prominence as chairman and chief executive officer of Connecticut-based Scovill Inc, a diverse worldwide manufacturer of home appliances and car parts.

He left the company to become Mr Reagan's Commerce Secretary, joining a Cabinet largely composed of successful businessmen. At his Senate confirmation hearings, Mr Baldrige said he would be the businessman's voice in the Cabinet, adding: "We should deregulate (American industry) from top to bottom."

In Washington, President Reagan mourned the sudden loss of his Commerce Secretary.

"The nation has suffered a great loss with the untimely death of Malcolm Baldrige," the President said in a statement issued by the White House. "An experienced businessman and respected community leader, he was a talented and dedicated public servant who sought nothing more than to make a contribution to America.

"Under his stewardship, the Department of Commerce played a key role in the rebirth of our country's prosperity and all of us owe a great debt to Mac Baldrige."

Mr Baldrige was a force to be reckoned with internationally on trade matters, weighing in on such issues as the value of the dollar against other currencies and the recent scandal over the sale of military technology to the Soviet Union by Japan's Toshiba Machine Company.

Born in Omaha, Nebraska, on October 4 1922, Mr Baldrige worked as a ranch hand and served in the US Army during the second World War, rising to the rank of captain. He leaves behind a wife and two daughters.

"He was extremely kind, sensitive, compassionate, bright and especially thoughtful of other people," said Mr Jay Cooper, Mr Baldrige's press aide. "He always like to say, 'Put yourself in the other person's shoes.'"

Mr Baldrige was active in Connecticut Republican politics, most recently as the state chairman for George Bush's 1980 unsuccessful presidential bid against Ronald Reagan.

RITUAL CONDEMNATIONS EXPECTED TO MASK DIFFERENCES

Expectations low as leaders of OAU gather

BY ANDREW BUCKOKE IN ADDIS ABABA

ADDIS ABABA, the Ethiopian capital, is decked with flags and full of policemen, and the signs proclaiming "Long live proletarian internationalism" in English and Amharic have been freshly painted. The Organisation of African Unity's summit starting today is not, however, expected to produce any more results than have previous summits.

More than one in five of its 50 members is involved in a civil war or serious border dispute, 24 years after the organisation was founded with the objectives of peace, unity and prosperity for the continent.

While the war between Chad and Libya will be high on the agenda, that between Morocco and Polisario for control of the Western Sahara will not even be discussed. Morocco withdrew from the OAU in 1984 over the admission of a delegation from Polisario's self-proclaimed Sahrawi Arab Democratic Republic.

All the acrimony generated by the arguments about such disputes—including that between Sudan and Ethiopia itself over mutual support for secessionist guerrilla movements, that between Ethiopia and Somalia over the disputed Ogaden region and many others—will probably be smoothed over by ritual condemnations of South Africa, calls for concerted action on sanctions and appeals for stronger support for the frontline states.

Dr Kenneth Kaunda, the Zambian President, will almost certainly be elected as the OAU chairman as much for his rejection of International Monetary Fund and World Bank policies for his country's economy as for his position as a veteran frontlin eleader. It appears that black Africa's $175bn debt will at last join South Africa as an issue holding the fragile organisation together.

Several countries have proposed a joint approach to Western creditors, but it is unlikely that their cohesion or combined level of debt will be sufficient to force Western creditors to do other than they do now—deal with countries individually.

Probably the only matter, apart from South Africa and debt, on which most of the heads of states arriving here agree is the central dogma of the OAU—that African borders, despite their often arbitrary colonial origins, are sacrosanct. Apart from the various secessionist movements, Somalia and Libya are the leading heretics for their claims on south-eastern Ethiopia and northern Chad respectively. Most of the other governments value the dogma too highly

Bulgaria attacked over Turk minority

By Judy Dempsey in Vienna

THE NATIONAL, cultural and religious identity of the Turkish minority in Bulgaria continues to be suppressed and even the historical records, which once contained the names of Turks living in Bulgaria are being changed, a senior Turkish official said in Vienna yesterday.

Mr Haluk Ozgul, the Turkish Ambassador to the Conference on Security and Co-operation in Europe (CSCE) which is meeting in Vienna to review the implementation of the Helsinki Final Act, delivered a scathing attack on the Bulgarian authorities for what he saw as their infringement of human rights and for effectively destroying the cultural identity of the Turkish minority.

For some time, Mr Ozgul said, the authorities in Bulgaria had been "tampering with official records", changing the names of the ancestors of Turks as well as the names of those who emigrated to Turkey.

Even the names of the dead in death registers, as well as on tombstones "are changed from Turkish to Bulgarian names."

The Turkish delegation in Vienna has for some time been relatively silent on the issue, hoping that Bulgaria would relax its policy of forced assimilation of the Turkish minority.

The campaign to forcibly assimilate the 800,000 or so Turks began in the early 1980s. Thousands of Turks, most of whom live in the south and north-east of Bulgaria were forced to change their names and adopt Bulgarian customs.

Mr Ozgul said pilgrimages to Mecca were now no longer permitted and daily calls for prayers from the mosques are prohibited.

In all the criticism of the Bulgarian policy, neither the Soviet Union nor any of the East European countries have openly supported Bulgaria.

Investment in China declines again in interim

BY ROBERT THOMSON IN PEKING

CONTRACTED FOREIGN investment in China fell again in the first half of this year, despite an increase in the number of contracts signed and despite the introduction of investment incentives late last year.

The Ministry of Foreign Economic Relations and Trade said that contracted investment totalled $1.09bn in the first half, compared to $1.42bn for the same period last year.

While the actual number of joint-venture contracts increased 30 per cent, the Government must be disappointed that foreign investment has not been turned around. Contracted investment last year totalled $3.3bn, down from $6.3bn in 1985.

A Ministry Official, Mr Wang Yongjun, said the unstable political climate had nothing to do with the fall, although diplomats say the sacking in January of Hu Yaobang, the Communist Party General-Secretary, and a campaign against "bourgeois liberalism," or Western influence, have added to investor uncertainty.

"Compared with the same period last year, the investment climate, the investment structure and investment orientation in the first half of this year improved a lot," Mr Wang said.

He said the decline was explained by China's more selective approach to joint ventures. This included, for instance, the introduction of restrictions on ventures such as hotels and restaurants.

He expected an increase in investment in coming months, and the Government has predicted that investment this year would equal that of last year.

However, if there is no improvement, the Government will have to consider further concessions to add to the 22 regulations passed last October in an attempt to improve the investment climate.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

		June '87	May '87	April '87	June '86
UK	000s	2,905.3	2,986.5	3,107.1	3,229.4
	%	10.5	10.8	11.2	11.6
USA	000s	7,260.0	7,546.0	7,500.0	8,422.0
	%	6.1	6.3	6.3	7.1
		May '87	April '87	March '87	May '86
W. Germany	000s	2,098.7	2,215.9	2,412.4	2,122.0
	%	7.6	8.1	8.8	7.7
France	000s	2,522.4	2,592.7	2,679.1	2,386.1
	%	10.7	11.0	11.4	10.2
Italy	000s	3,139.0	3,143.0	3,348.1	3,174.6
	%	13.7	13.7	14.6	13.8
Netherlands	000s	653.4	667.6	692.2	685.8
	%	11.4	11.7	12.1	12.0
Belgium	000s	470.5	482.2	495.2	481.7
	%	11.4	11.7	12.0	11.7
		April '87	March '87	Feb. '87	April '86
Japan	000s	1,900.0	1,940.0	1,860.0	1,820.0
	%	2.96	2.86	2.93	2.86

Source (except USA, UK, Japan): Eurostat.

Brittan warns Government on flexible spending limits

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT was yesterday warned against taking a flexible attitude to public spending limits by Mr Leon Brittan, the former Conservative minister.

Mr Brittan, who was Chief Secretary to the Treasury from 1981 to 1983, gave his strongly worded warning during a speech in north Yorkshire.

It follows the Cabinet's decision last Thursday that public expenditure should take a declining share of national income, with the total for 1988-89 "as close as possible" to the existing planned figure of £154.2bn. That represents increased flexibility, since the previous aim was to hold spending within the previous planned figure.

However, Mr Brittan maintained that such arguments should be viewed with "a very beady eye."

He said: "We will be told that revenues are rising faster than anticipated, so that we can spend more without borrowing more. We will be told that the Government's commitment is only to keep down the proportion of public spending to our national wealth, and not to peg it in absolute terms; so that if the economy is expanding faster than previously anticipated, the public spending limit should be correspondingly increased."

Mr Brittan noted the £4.7bn increase in the planned level of spending agreed last autumn, and said: "It would be a great mistake to think that we can do the same again, and hope to adhere to our inflation and tax objectives as well."

Mr Brittan's intervention is a further example since the general election of his taking a strong independent stand in relation to the Government. Ten days ago, he criticised the decision to release 3,500 prisoners early.

Such a high-profile approach is being seen at Westminster as a further signal that Mr Brittan has political ambitions although he was not taken back into the Government last month. He resigned as Trade and Industry Secretary during the Westland crisis in January 1986.

In the speech, he argued that in an expanding economy it is more difficult that ever to resist demands for increased public spending. He said there would be pressure on the Government not merely to allocate to spending programmes some of the money previously earmarked to the reserve but also to go further and substantially increase the total level of spending itself.

Mr Brittan said: "That pressure must be firmly resisted, not to yield to it would jeopardise the remarkable economic progress that we are currently making.

"The recently announced balance-of-payments figures should be regarded as a sign of the strength of our growth, rather than any serious cause for concern.

"None the less, their announcement was received with a considerable degree of anxiety, and to increase total spending at this stage would be to hoist all the wrong signals. It could well stimulate inflationary pressures and the necessary corrective action could keep interest rates higher than they would otherwise need to be."

Mr Brittan also argued that it was necessary to look carefully at the quality of expenditure.

Tories 'concerned at workload'

BY OUR POLITICAL EDITOR

MR NORMAN TEBBIT, Tory Party chairman, yesterday said Tory backbenchers were concerned at the size of the Government's legislative workload but that Tory MPs were pretty cheerful and in good heart.

He was speaking in a wide-ranging interview on the BBC's World this Weekend programme.

He said some senior backbenchers were a little concerned at the size of the workload, with one of the heaviest legislative programmes for many years.

He did not know how long he would remain party chairman and had not discussed the issue with Mrs Thatcher but he doubted if he would be chairman at the next general election and whether he would ever return as a departmental minister.

There was a lot to do outside government, he said. "Take education. It's all very well to say to people 'you have these rights.' There's a great deal to be done in encouraging people to use these rights."

Looking ahead to the Tory Party conference, in October, he said some anxieties might be expressed about the proposed replacement of domestic rates by a universal community charge.

He acknowledged that there might also be impatience on Home Office issues because the conference wanted quick action. However, that often happened and he could remember only one occasion when a Home Secretary had been given a standing ovation.

Ferry modifications 'not costly'

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

BRITISH SHIPPING companies are unlikely to face large bills for modifications to ferries as a result of the recommendations of the inquiry into the loss of the Townsend Thoresen ferry, Herald of Free Enterprise.

Senior managers spent the weekend examining the implications of 65 pages of recommendations in Mr Justice Sheen's report on the Herald, which capsized outside Zeebrugge harbour on March 6 with the loss of 188 lives.

No company is yet willing to comment publicly on the cost of implementing the recommendations, but it was clear that there would be no large bills to be faced, at least in the medium term.

Mr Justice Sheen made recommendations for immediate action, which he said were so eminently sensible that they should be enforced unilaterally, without waiting for international agreement.

Loading door indicator lights, closed-circuit television and emergency lighting were accepted immediately by Mr Paul Channon, the Transport Secretary, and will become mandatory shortly on all UK-flag ships.

However, none of those will be expensive to install. Indicator lights and TV cameras are already in service on many ferries—including all Townsend Thoresen ships, on which they were installed shortly after the Herald incident.

The judge's other recommendations for immediate action, which are being studied by Mr Channon, include modifications such as the use of automatic draught gauges, better signposting of escape routes and more accurate recording of passenger numbers. None is expected to require significant expenditure.

The only short-term recommendations that might be expensive are those relating to alterations to ferry berthing facilities and weight bridges.

Those are intended to avoid the need for ferries to be heavily ballasted at bow or stern in order to load—a significant contributory cause of the Herald disaster—and to provide accurate information on freight weights. However, the cost of changes in those areas would be borne by individual port authorities, rather than ferry companies.

Mr Justice Sheen made several longer-term recommendations that might require modifications to existing ferries and changes to the design of future ships. They are subject to approval by the Transport Department, however, and the report made clear that it would be reasonable for many to be implemented only with international agreement.

The most significant relates to ferries built between 1965 and 1980, when the UK regulations on subdivisions in the bulkhead deck—the area below the vehicle deck—were tightened up.

Mr Justice Sheen said there was a greater likelihood of water entering the vehicle decks of pre-1980 ships after a collision. He urged the Government to consider phasing out those ships unless they could be modified to meet the 1980 standards.

There are 45 large UK ferries more than seven years old, and 47 smaller ones. It is thought unlikely that most could be satisfactorily modified because of the lack of space on the bulkhead decks and the presence of engine-room machinery.

Mr Justice Sheen's other main long-term recommendation was for a study of the possible use of transverse or longitudinal bulkheads on the open vehicle decks of ferries to prevent the free flow of incoming water.

A review of that and other technical matters is being carried out jointly by the Transport Department, the General Council of British Shipping, and Lloyd's Register, the independent ship inspection organisation.

Assistant bosun to be disciplined

BY OUR TRANSPORT CORRESPONDENT

TOWNSEND THORESEN is to take disciplinary action against Mr Marc Stanley, the seaman who fell asleep in his cabin and forgot to close the bow doors of the Herald of Free Enterprise.

The company is also thought likely to take action against two directors at the time of the disaster, Mr James Ayers and Mr Anthony Young, who were heavily criticised in the report of the inquiry into the disaster headed by Mr Justice Sheen.

Mr Stanley, the Herald's assistant bosun, was described in the inquiry report as seriously negligent, but Mr Justice Sheen had no authority to take action against him because his disciplinary powers under the Merchant Shipping Acts were limited to officers.

As a result, the master and chief officer of the ship were both suspended, but Mr Stanley and Townsend Thoresen shore staff escaped punishment.

Mr Justice Sheen went out of his way to draw attention to Townsend Thoresen's disciplinary powers, however, and the company is expected to take action as soon as it has finished studying the report.

Mr Young and Mr Ayers were both criticised heavily by the judge. It is not clear what action will be taken against the two men, however, particularly since Mr Ayers has since retired.

Most of the senior managers who were in control of Townsend at the time of the tragedy have since been replaced by appointees of Peninsular and Oriental Steam Navigation, which bought European Ferries, Townsend's parent company, only weeks before the loss of the Herald.

Retail trade 'to grow 20% over five years'

By Christopher Parkes, Consumer Industries Editor

REAL SALES growth of more than 20 per cent over the next five years will ensure that retailing continues to shine among the stars of the UK economy.

Verdict Research, a specialist analyst of the retail trade, calculates that shop turnover, which recently exceeded £100bn a year, will climb to £146bn by 1991.

The company's annual overall assessment of the industry, just published, selects do-it-yourself, electrical goods and drug stores as among the most promising sectors.

B&Q, the Woolworth Holdings do-it-yourself business, it says, will become Britain's biggest retailer in terms of selling space, turning over £1.5bn a year from 11m sq ft by 1991.

DIY sales have increased in real terms by 73 per cent in the past five years, and will rise a further 65 per cent in the next five.

Over the decade, Verdict says, DIY stores will have increased their share of all retail spending from 1.8 per cent to 3.7 per cent.

Other winners include department and variety stores, which are billed to raise their share of sales from 11.8 per cent in 1980 to 13.6 per cent in 1991. While John Lewis and Marks and Spencer will continue to progress, Verdict is less sure about some of the other runners.

Littlewood's, the private chain, is still seeking its High Street niche, it says. "BHS is proving more difficult to rationalise than many imagined," it adds, although it has winner potential. Verdict also reserves judgment on Debenhams, part of the Burton group, and Woolworth's high street stores, which are both restructuring.

Multiple grocers will also advance, led by the big five multiples, to claim 32.5 per cent of all spending by the end of the decade.

Electrical retailers, with Dixons in the lead, will gain further ground, while BAT's Argos chain of catalogue showrooms is forecast to double it sales over the next five years.

However, Verdict says, prospects are darkening for specialist food shops, such as butchers and bakers, as the supermarkets advance. Hardware stores will suffer from DIY superstore pressure, and bookshops, off-licences and confectioners, tobacconists and newsagents also have little to look forward to in the 1990s.

Those and other shops, which rely on neighbourhood and high street catchment areas, will suffer increasingly from the shift to out-of-town shopping.

Last year, out-of-town centres accounted for some 11 per cent of all sales. That will climb to 19 per cent by 1991, cutting the high street's share by 3 points to 58 per cent and reducing neighbourhood stores' take from 25 per cent to 20 per cent.

Retailing 1991, £950. Verdict Research, 112 High Holborn, London WC1V 6JS.

Data register fee to increase

By David Thomas

THE FEE for registering Act is being increased to £40 from £22 in November because of the failure of businesses and customers to register.

The fee, for three years, was set on the basis of an estimated 300,000 registrations. So far, there have been only 136,000.

Mr Eric Howe, the data protection registrar, has estimated that about another 100,000 businesses and individuals have yet to register. He said the first prosecutions for failing to register would begin this year.

A simplified form for small businesses has been introduced.

Philip Stephens assesses the recent surge in manufacturing industry

Climbing back to previous peaks

THIS WEEK will see further evidence of the recent surge in Britain's manufacturing industry. The Confederation of British Industry's latest quarterly trends survey, to be published on Wednesday, is expected to show that manufacturers remain confident of further increases in output and orders.

If those expectations are translated into fact within the next few months manufacturing output will finally make up for the massive losses experienced in the 1980-81 recession and climb back to the levels of the last peak in 1979.

There are still some questions, however. Last week's trade figures are difficult to square with the available evidence on manufacturing output. Excluding oil and erratic items, exports during the three months to May were 4 per cent lower than during the previous three months, although still 6 per cent higher than in the same period a year earlier. The figures also point to a sharp rise in the share being taken by imports in meeting the present buoyant demand in the economy.

That is hard to reconcile with the consistent optimism over export prospects of the recent monthly CBI surveys or with official figures showing strong rises in manufacturing output in the period.

It may be that after the sharp acceleration in the last part of 1986, the pace of growth in manufacturing output has moderated. Trade and production figures, however, frequently move in different directions over short periods, reflecting statistical quirks in their compilation and various lags in the economy.

The general expectation among economists is that during coming months the strength of the manufacturing sector will feed through into a recovery in exports.

Overall, the best guess of the Government's statisticians, who are keen to emphasise the fallibility of the statistics covering the last few months, is that manufacturing output is growing by between 4 per cent and 4.5 per cent a year.

Much of the recovery dates from last autumn, when the pound fell sharply against other main currencies and, in particular, against the D-Mark. An upturn was apparent, however, even before the devaluation, with output beginning to rebound early in 1986 after the stagnation of the previous year.

That has led the Government to argue that the output recovery is not simply a devaluation-led bounce but a reflection of a more fundamental "supply-side" improvement within manufactured industry. Surging productivity, increased efficiency, healthy profitability and strengthened management are the ministerial catch-phrases.

The rise in output during the past year, however, has been far from a uniform 4.5 per cent across different industries. While metals producers have increased output by 9 per cent, companies in the artificial fibres business might still be in the middle of a recession. Output of artificial fibres has fallen by more than 13 per cent in the last year and is some 55 per cent below the levels seen during the 1979 peak.

Producers of clothing, footwear and leather and companies in the mechanical engineering sector also still face depressed demand, with their output falling slightly since the spring of 1986. Gains in the food, drink and tobacco and textile industries have been below average.

One of the strongest performances has been in the chemicals sector, where production has climbed by a further 7.6 per cent in the past year. Just as significantly, chemicals companies are producing 19 per cent more than during the 1979 peak.

The much-publicised recovery in Britain's car industry is reflected in a 5.4 per cent rise in output since the spring of 1986. The ground that still has to be made up, however, is shown by the 30 per cent fall in output compared with 1979.

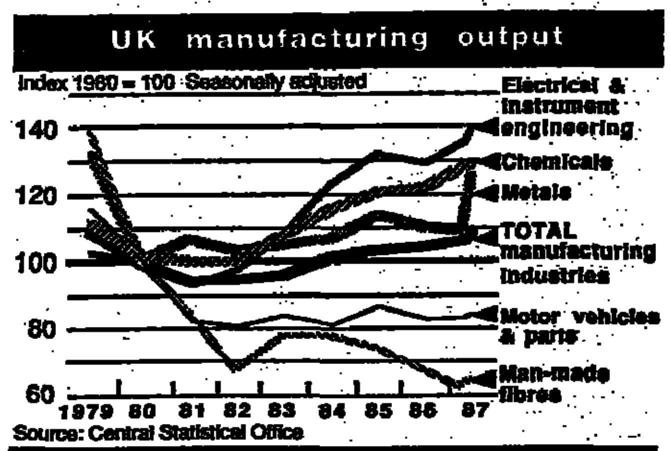
The electrical and instrument engineering sector, which includes computers and other high-tech equipment, has seen its output rise by just less than 10 per cent during the year to leave it 35 per cent higher than in 1979.

Meanwhile, the mini-boom in construction, particularly in private house building, has brought a 6.3 per cent increase in the production of mineral products, while the paper, printing and publishing industries have raised their output by more than 5 per cent.

If economists will be looking for confirmation of those optimistic trends in the CBI survey, they will also be closely scrutinising the results for any further signs of capacity constraints.

Although apparent in one of two sectors such as petrochemicals and plastics and bricks and steel, there has so far been no significant evidence that manufacturing industry as a whole is bumping up against such constraints.

The trade figures, however, do appear to carry a warning on the continued weakness of investment spending. In spite of a recovery in the latest month, imports of capital goods in the three months to May were more than 5 per cent lower than in the previous three months.



Construction-work survey shows continuing growth

BY ANDREW TAYLOR

GROWTH in construction work is continuing, according to the latest quarterly state-of-trade survey published today by the Building Employers Confederation.

The survey covering the three months to the end of June states: "No less than 54 per cent of firms report that they are working at full or almost full capacity."

Seventy-two per cent of companies expect to increase their workload this year compared with 1986, said the confederation.

The proportion reporting a rise in new inquiries for work, a key indicator for future workloads, has slipped slightly, however, from 44 per cent to 38 per cent since the confederation's last quarterly survey in March.

The confederation said inquiries from the private sector remained strong although inquiries for repair and maintenance work appeared to have weakened.

The survey said that although the number of companies experiencing delays because of material and labour shortages had increased, few companies had reported serious delays to contracts and there was still spare capacity.

The buoyant trading conditions in the construction industry have been led by a dramatic increase in private house building during the past 18 months.

Figures just published by the Government, giving the latest levels of construction new orders, show that orders rose by 18 per cent in the three months to the end of May compared with the corresponding three months a year ago.

Figures, however, indicated that the increase in private housing orders might be slowing. According to the department, new orders were 14 per cent lower than during the previous three months.

Private industrial orders were 17 per cent higher than in the previous three months and 47 per cent higher than during the corresponding period last year. Private commercial orders increased by 40 per cent and 31 per cent respectively.

Proposal to cut unemployment

BY CHARLES LEADBEATER, LABOUR STAFF

THE Government could increase employment through expanding demand while moderating the growth of money wages, according to a report published today by the Institute of Economic Affairs.

The institute has generally been a strong supporter of policies to free markets as the most effective means of cutting unemployment. But many of the measures advocated in the report, written by Professor Tom Wilson of Glasgow University, would be supported by modern Keynesian economists.

Professor Wilson argues: "We need to avoid a metaphysical theory of the market. Although a coherent, if unplanned pattern can emerge from the operation of the market, we must not treat it as a black box which will invariably produce the right result and, in doing so, will exclude the need for action by the state at any point. Neither the market nor the state should be credited with such wonder-working power."

Government policy in the early years of the decade was too influenced by the unwarranted belief that unemployment would fall through market-clearing wage adjustments. But the Treasury has become committed to a version of the kind of demand management that was decried by monetarists.

Prof Wilson says there is unlikely t obe an substantial decrease in unemployment, despite recent falls, and the effects of another world recession would be catastrophic.

He calls for measures to reform the labour market and wage bargaining that would restrain the growth of money wages, reduce pressure on inflation and thereby allow increases in money demand to have a more powerful impact on real demand and employment. Policies to restrain the growth in money wages would be more effective tha nmeasures to cut the level of wages.

Prof Wilson urges consideration of a system of pay tribunals to moderate wages growth, possibly combined with a tax-based incomes policy under which employers, unions and workers would be offered tax cuts for pay settlements below the norm, or tax increases for pay rises above the norm.

Unemployment and the Labour Market, IEA Occasional Paper 75. Professor Tom Wilson, IEA, 2 Lord North Street, London SW1P 3LB, £3.50 including p&p.

Go-ahead likely for Wytch Farm pipeline

By Max Wilkinson

BRITISH Petroleum is this week expected to be granted planning permission for 56-mile pipeline linking its Wytch Farm oilfield in Dorset, the largest UK onshore oilfield, to Southampton Water.

The conclusion of the three-year planning battle would enable the company to go ahead with a £265m expansion of the field, which would bring it up to full production of 60,000 barrels a day in about 18 months. That is about 10 times present output.

The Department of Energy is likely to give BP the "Annex B" permission required for the development of any UK oilfield soon after planning permission for the pipeline is granted.

It is to the Government's advantage to expedite the permissions needed before the combined government share sale and BP rights issue, expected to raise more than £8bn, in the autumn.

Wytch Farm, with reserves of 230m barrels, is comparable to a medium-sized North Sea oilfield. Because the costs of oil production are lower on land, it should be highly profitable.

● BP confirmed yesterday that it would use Warburg Securities to advise it on the forthcoming rights issue and share sale. Warburg was retained to advise on the $7.7bn (£4.8bn) offer for the minority holding of Standard Oil in the US this year.

BP has decided to use Warburg and Slaughter and May, the firm of solicitors, rather than Cazenove, the broker, and Freshfields, the solicitors, which have acted for the company in past share sales.

CBI warns on safety claims

BY DAVID CHURCHILL

A WARNING that companies might face higher claims for producing or selling unsafe goods as a result of new government consumer protection legislation comes today from the Confederation of British Industry.

The CBI, in a guide to the new laws published today, says the legislation makes it easier for consumers to claim for damage caused by a defective product.

"As the burden of proof on plaintiffs is being reduced, it is likely that claims against companies will increase," says Mr Norman Rose, the CBI's deputy director in charge of legal affairs.

The CBI advises member companies to "urgently review their current procedures and practices" affected by the legislation.

The 1987 Consumer Protection Act, which became law shortly before the end of the last parliament, makes changes in manufacturers' liability for damage caused by defective products in accordance with a draft directive from the European Commission.

It also bring in increased measures to improve consumer safety in general and simplifies the rules governing misleading price comparisons in shops.

The CBI points out that the Act makes it a criminal offence to supply any consumer goods that fail to comply with a new general safety requirement.

Mr Rose said the CBI welcomed the new rules governing price marking of goods that replaces the existing Bargain Offers Order, which many retailers found confusing.

A Guide to the 1987 Consumer Protection Act. CBI Publication Sales Department, Centre Point, 103 New Oxford Street, London, WC1A 1DU. £2 for CBI members, £3 non-members.

British Telecom resurrects dream of dominance in information technology

David Thomas reports on a revitalised BT's five-year strategy for success

BRITISH TELECOM is dusting down its ambitions to be the leader of the UK information technology industry, which were loudly trumpted at the time of its privatisation.

Freed from the dead hand of the state, it was said then, BT, with its massive resources, could breathe life into Birtain's flagging information technology efforts: acquisitions and a move into manufacturing were on the cards. However, no sooner was BT privatised than the rhetoric apeared embarrassingly overblown.

Its early acquisitions, particularly of the Canadian-based Mitel equipment manufacturer, proved troublesome. Its managers were fully stretched trying to modernise its core network. Senior executives let it be known privately that its wider information technology ambitions were on the back burner.

Yet it seems BT never abandoned the wider vision. Parts of its empire, blessed with a more realistic appreciation of the task involved, were quietly working out plans. BT is now sufficiently confident to talk about them.

The new five-year plan for BT's international products division is at the heart of the revived ambitions. Mr John McMonigall, the division's managing director, explains: "We've been putting the flesh on the bones."

Until now, Mr McMonigall's own division has appeared more like a heap of unconnected bones than a coherent organism. It is responsible for selling some 1,500 products, ranging from Mitel's private exchanges, through financial dealer boards to technical publications. Now, however, Mr McMonigall points to key sinews holding the new strategy together:

BT has a tougher attitude to the intellectual property rights of the products developed at its Martlesham laboratories, which before privatisation were frequently handed over to UK manufacturers.

"They built the intellectual property rights into their products, sold them back to us and got very rich," Mr McMonigall says. "One of the objectives of my division is to take the exciting bits of Martlesham and do it for ourselves."

That will probably mean BT doing more manufacturing, although Mr McMonigall says it will decide whether to manufacture or to subcontract on a case by case basis.

BT's "manufacturing engine," in Mr McMonigall's words, will be its Fulcrum subsidiary, the main role of which has been to repair exchange and transmission equipment. Mr McMonigall foresees Fulcrum making many more of the products coming out of Martlesham.

But a greater presence in manufacturing must be justified by more sales abroad. Mr McMonigall's philosophy is that all products offered by his division must be relevant to BT's UK operations, but must also be sold abroad in larger numbers.

His division has already achieved some export successes. One example, where the company now claims world leadership, is financial dealer boards, a business BT entered only four years ago. Mitsui has been selling them in Japan and, building on that relationship, is now beginning to sell BT's modems too.

Mitel, which Mr McMonigall believes is now largely turned round, is integral to both his new products and marketing strategy.

BT will increasingly draw on Mitel's expertise in areas such as private exchanges in developing new products. That has been important in the integrated telecommunications - and - computing system due to be launched by BT in October.

BT will also lean on Mitel's distribution channels in trying to penetrate North America with new products such as modems and multiplexers developed at Martlesham.

New commercial disciplines are underpinning all that. BT was not rich with managers used to running tough P and L (profit and loss) businesses," Mr McMonigall accepts.

Many of the top managers in his division have been brought in from outside, including Mr McMonigall, previously with STC. Each business in the division has its own profit target.

Mr McMonigall wants his division to increase its present £500m sales figure to more than £1bn a year in four to five years, excluding any acquisitions. Two key requirements must be met if he is to hit this target: BT's push into computer-based products must be successful and BT will have to generate more sales overseas.

Doubts will centre on the wisdom of BT attacking a market that already looks overcrowded, particularly in the US: almost every computer and telecommunications manufacturer in the world is aiming at that segment where computing meets telecommunications.

Moreover, BT may be trying to reach its ambitious goals on the cheap. Mr McMonigall foresees only a steady increase in his division's £55m research and development budget, although he also draws on Martlesham's background expertise.

It will be several years before it becomes clear whether BT is to be a significant force in world information technology, or whether once again its ambitions are way ahead of its capacity to deliver.

Morgan Grenfell sues for £4.2m

By Hugo Dixon

MORGAN GRENFELL, the merchant banking group, is suing Holland Automation, the computer company, for £4.2m for supplying it with a dealing system it alleges was defective.

Morgan ordered £2m worth of hardware and software from Holland last year. The equipment was used for treasury dealing and settlements, Morgan said. It had nothing to do with its gilts operations, where more than half the staff were dismissed earlier this month.

The lawsuit covers the cost of the contract and damages for losses during the period when the systems were allegedly not working properly. They have been put right, Morgan said.

Peter Montagnon reports on the new head of Trade and Industry

A shift in emphasis from Young

THE APPOINTMENT of Lord Young of Graffham as Secretary of State for Trade and Industry in the new Conservative Government came as a welcome move as far as many British exporters were concerned.

A businessman and a good communicator who is widely though to have the ear of the Prime Minister, he was seen as a man who could galvanise a demoralised government department and maybe teach it to respond more effectively to the needs of exporters than has sometimes been the case in the past.

Yet in a recent interview Lord Young made clear that exporters would be wrong to jump to the conclusion that that meant more government resources would be mobilised to help them in the future.

For a start, Britain was in the middle of an export-led boom, he said. "This is probably the best period we have had for exports in my lifetime." It was difficult to see why exporters needed more assistance. Export success was up to companies themselves: the Government could not achieve it for them.

That, he said, was also why he was a firm believer in free trade and an opponent of protectionism. He said one reason manufacturing industry was doing well was that it had faced up to international competition in a typical high street. There was no way, if one gave in to protectionism, that that would continue.

Lord Young: firm believer in free trade

That did not mean that the Department of Trade and Industry had no role to play in trade: It was wrong, too, to think that it was nowadays only concerned with rejuvenating the inner cities. That task had been "bolted on" to the department, but it had three main areas of responsibility—the City, industry and trade—and all were important.

Lord Young said one trade area he would seek to improve was the development of facilities to help smaller companies —those with turnover of up to £10m—to enter the export market. "In essence, what I want to do is to let people know that if they want to go overseas, we are there to help with practical advice."

All that, however, is a long way from the hopes of big companies that Lord Young's appointment might mean some easing of the rules on Export Credits Guarantee Department cover for developing countries and an increase in aid money to support exports.

The minister said it was questionable whether making grants available to support individual contracts would do any good if it entailed a cost for the economy as a whole. There was also no point in encouraging the ECGD to make cover available for uncreditworthy countries that were not going to repay their loans. Britain might just as well give its exports away as a present, he said.

There were cases where government funds should be used, but "what you get for the money is more important than how much you put in."

Japan, for example, had loughed a lot of money into China, but it was starting to run out. Even the Japanese were starting to realise that "there is a limit as to how far you can give soft loan money or finance away." China had meanwhile discovered that soft loans in yen could turn out to be very expensive if the currency appreciated before they were repaid.

Although Britain had fallen behind in the aid stakes, it would be in a rather better position in the future and that improvement would come naturally, not as a result of more government intervention.

His determination to promote free trade did not mean that he was dismayed by Britain's threat of sanctions against Japan at the time of the dispute over Cable and Wireless and access of British companies to Tokyo financial markets earlier this year. "The Japanese understood that we were serious and they made good concessions."

By his own admission, Lord Young has still had little time to think about some of the more technical areas of trade politics. He does not regard himself as an expert on the US trade legislation debate and will leave such affairs as the Uruguay Round of multilateral trade liberalisation talks in the day-to-day hands of Mr Alan Clark, the Trade Minister.

But in general terms his approach to trade policy is very clear and contrasts strikingly with the more mercantilist approach of Mr Clark.

He said government did have a role to play in areas like the Uruguay Round, in undertaking bilateral negotiations, working to remove blockages in the trading system and in disseminating information. But it was up to exporters themselves to carve out their own share of the market place.

"We tell companies: 'You've got to do it. We can't do it for you'."

Rover car plant may face loss of contract

By Arthur Smith

THE FUTURE of Austin Rover's volume cars body pressings plant employing 3,000 at Swindon could be placed in doubt under a possible £30m private sector investment deal between Jaguar cars and GKN, the engineering group.

Jaguar is in talks with GKN to switch the contract for the supply of body panels for its luxury cars from Austin Rover, its long-standing source, to the GKN Sankey factory at Telford, Shropshire.

The financial contribution each partner would make to the £30m project has still to be negotiated but the aim would be to create a highly competitive facility.

Jaguar would have to give the state-owned Rover group three years' notice of any change in the contract, but its withdrawal would have serious implications for the Swindon plant.

Loss of the rising Jaguar orders would affect volume loading of the plant and raise questions about its viability.

Jaguar plans to almost double output from 48,000 cars this year to more than 80,000 by the mid-1990s and is anxious to gain greater control over the supply of body panels, seen as a crucial element of its business.

The luxury cars company is concerned that its relationship with Austin Rover might be coloured by attitudes prevailing from pre-privatisation when Jaguar was part of the state-owned group and that its requirements might be regarded as low priority.

Much-publicised speculation about the future of Austin Rover and its increasing collaboration with Honda of Japan has also caused uncertainty about the longer-term security of supply.

Jaguar confirmed last night that it was reviewing the long-term supply of body panels, but insisted that a deal with GKN was only one of the options being considered.

It seems unlikely, however, that Jaguar could justify commercially a decision to go it alone and build a pressing plant at a cost of upwards of £80m.

The GKN option would offer a lower-cost route and give the engineering group the benefit of volume for an existing but under-utilised facility.

The workforce at the GKN Sankey factory in Telford has been cut from more than 6,000 to 1,600 with the decline of the UK vehicle industry since 1979.

Any investment by Jaguar for the supply of body pressings will form part of the £1bn spending programme over the next six years announced last month by Sir John Egan, chairman.

He spoke of the need to expand body shop and engine production facilities to cope with projected higher output. The current two-model range is to be extended to three "families" based on the existing XJ6 saloons, XJKS sporting coupe, and a planned new sports car, likely to be called the F-type.

Body-pressing facilities will see their importance enhanced by the intention to change the product more frequently, perhaps with a major "face lift" every four years and a model replacement every eight years.

Cabinet to hold talks on community charge plans

BY PETER RIDDELL, POLITICAL EDITOR

THE UNIVERSAL community charge to replace domestic rates will be phased in over varying periods in different parts of England and Wales under proposals to be considered by a Government Cabinet committee tomorrow.

The main issue will be the length of the transitional periods, starting in 1990, and in particular whether they should be three or five years, or possibly longer, depending on the part of the country.

Department of Environment ministers and officials have been working on a series of options about how rates and the new charge should run alongside each other. This follows the decision in principle taken two weeks ago by a Cabinet committee that the changeover should be phased in over a period, rather than introduced at once, as was the case in Scotland and as was originally favoured by Mr Nicholas Ridley, the Environment Secretary.

Margaret Thatcher.

Mrs Margaret Thatcher, the Prime Minister, has denied that accepting a transitional period would represent a concession to opponents of the scheme, because this option was in the initial Green Paper (discussion document). She has said, "Where you are making a major change, it is best to do it in easy stages by transitional periods."

The need for differing lengths of transitional period arises because of the complicated interaction of the introduction of a unified national business rate, a changed local authority grant system and the varying levels of rates.

In particular, the inner London boroughs will have to be treated separately. They present the further complication of a separate proposal to allow boroughs to opt out of the Inner London Education Authority. It is therefore recognised that these boroughs will require a longer than average transitional period.

Decisions in principle need to be taken now to allow the drafting of the necessary legislation and so that ministers can make an announcement to deal with the recent wave of concern over the proposals among Tory backbenchers.

Unions support airline merger

BY CHARLES LEADBEATER

THE CIVIL air transport trade unions yesterday urged the Government not to refer the merger of British Caledonian Airways and British Airways to the Monopolies and Mergers Commission.

Mr Mick Martin, the leader of the unions in the industry, warned that a reference to the commission would be debilitating to both companies.

Both companies will welcome the unions' support as they face concerted opposition from smaller independent airlines which fear the merged company will stifle competition in the UK market.

Mr Martin said: "We wholeheartedly support the merger in the belief that it will create a new and vibrant mega-carrier, save British Caledonian from being taken over by a foreign carrier and protect jobs. This is logical industrial policy and we do not believe it will in any way stifle the bourgeoning competition provided by the expanding UK independent airlines."

British Caledonian has to merge with one airline or another, he said. It would be unable to survive its recent airline operating loss of £25.5 million without a further round of massive job costs and asset sales. The company also faced the costs of replacing its ageing airline fleet, Mr Martin said.

The other alternative to merger with British Airways was a merger with a European, or more likely an acquisitive American airline, which would have been more damaging for the independents.

"The merger adds only 3 per cent of the UK internal market to BA's existing network as BCal is normally an international airline," said Mr Martin.

Report urges more flexible retirement

By Alan Pike, Social Affairs Correspondent

BOTH occupational and state pensions should be available on graduated sacales between the ages of 60 and 70 to encourage flexible retirement, a pamphlet published by the Employment Institute argues today.

Mr Hugh Mellor, former director of the Centre for Policy on Ageing, says that only half the male population aged between 60 and 65 have jobs. But more than one person in five in that age group was seeking work, indicating that retirement had not ben a willing decision.

Hardship was being built into the future, because people who retired early started their retirement with lower pensions and faced a longer period in which to suffer erosion of pension levels by inflation and depletion of savings.

A decline in economic activity among people over 55 was causing hardship for many, particularly those forced to retire unexpectedly. "The process is doing very little if anything for unemployment generally, and as it is making many dependent on social security payments it is placing an additional burden on public funds."

There were strong arguments for blurring the sharp division between employment and other kinds of work in later life. It should be possible for people to retire at any time within a broad span of years, and perhaps engage in partial retirement over a period.

"The policy of flexible retirement implies a change in the status and concept of a pension. A pension will be an income available as a right because it has been earned."

Work in Later Life: A Plea for Flexible Retirement. Employment Institute, Southbank House, Black Prince Road, London SE1 7SJ. £2.50.

Japan's car makers 'cut costs and hid price rises'

BY JOHN GRIFFITHS

JAPAN' car makers have cut their costs and disguised price rises so effectively that "they are already back where they started before the yen started its climb," says Professor Krish Bhaskar, director of the Motor Industry Research Unit at the University of East Anglia.

Prof Bhaskar, a motor industry academic, was commenting on a study of the situation of Japanese manufacturers in a quarterly review of the world motor industry to be launched by the unit in August.

The study finds that Nissan and Mazda each cut their costs by 20 per cent last year and have set similar targets for this year. Mitsubishi cut its costs by 15 per cent and plans a further 15 per cent cut. Honda cut its costs by 10 per cent with a further 20 per cent set as a target for this year. Toyota, "already very efficient," cut its costs by 5 per cent with a similar percentage planned for the current year.

"Some of the figures for future cost reductions may seem over-optimistic but when bearing in mind the previous cost-cutting targets reached by the Japanese car makers when under pressure, they can only be regarded as a serious possibility," the reports says.

Since the autumn of 1985, the yen has strengthened from Y260 to the dollar to Y140 by the middle of this year but appears to have peaked. This weekend it stood at Y150 to the dollar.

Overall, the Japanese had "emerged stronger as a result" of their two-pronged action.

Effective 10 per cent price rises in the US and UK and 5 per cent in West Germany, when coupled to the cost reductions, meant it was possible for the Japanese car makers to break even at about Y122 to the dollar, Y185 to the pound and Y65 to the D-Mark. The yen stands at about 240 to sterling and 81 to the D-Mark.

The study identifies several ways in which savings are being achieved, including the sourcing of parts from Europe and the Far East.

That was to take advantage of the yen's strength and to avoid rising Japanese labour costs. "European suppliers are now being approached as much for cost-saving purposes as for their expertise and superior products," the study says.

Production at vehicle plants outside Japan was also playing a significant role, particularly in the US, where cars are being built more cheaply than in Japan.

"It is now thought that Honda is close to putting its seal of approval on a plan for a new generation of upmarket cars to be built exclsively in the US and exported to Europe and Japan," it says.

Motor Industry Review, Motor Industry Research Unit, 2 Dove St, Norwich NR2 1DE, £265 quarterly or $460 a year.

Judicial inquiry call on benefit delays

BY ALAN PIKE

AN APPLICATON will be made in the High Court this morning for a judicial review of the Department of Health and Social Security's handling of supplementary-benefit claims.

The action is being taken by a coalition of the National Association of Citizens Advice Bureaux, the Child Poverty Action Group and the London Boroughs of Hackney and Islington on behalf of the Association of London Authorities.

Hackney and Islington are both Labour-controlled, but the action is receiving financial support from other local authorities, including Bromley, Conservative controlled, and Sutton and Richmond, which have Alliance councils.

NACAB, CPAG and the Association of London Authorities say the DHSS has acted unlawfully by not dealing with claims for supplementary benefit promptly enough.

When the action was launched this month, Mr John Moore, Secretary of State for the Social Services, was given 21 days to reply to the claims. In the view of the parties to the action, a response that has been made by the Government does not answer their legal submissions.

Ms Elizabeth Filkin, director of NACAB, described the supplementary benefit system in London as in a "continuing state of crisis," while, nationally, social security inquiries at citizens advice bureaux were up 21 per cent this year.

Ms Filkin said delays in settling claims had caused serious hardship for claimants and greater costs for hard-pressed local authorities with an increased demand on their social services and housing departments.

Building societies given more flexibility on funds

BY HUGO DIXON

THE Building Societies Commission, recently criticised for being too rigid and interfering in its regulation of the industry, has taken an important first step to become more flexible, in a move that should allow enterprise to flourish.

In a paper about borrowing from wholesale financial markets, the commission has followed the Bank of England's more hands-off approach.

Within broad parameters, it is telling societies to decide for themselves the most sensible way of operating in those markets. If it does not like what they are doing, it will tell them to stop.

The commission's previous practice, still evident in other areas of its regulation, was to produce detailed documents setting out precisely what societies might do in what situations.

That approach has attracted criticism because it did not recognise that the industry is increasingly diverse in its activities. It also stifled innovative managements through excessive bureaucracy, some societies said.

The paper acknowledges that societies are different. Some still raise all their money from small investors in the traditional way; others have ambitions to become more active in the management of their finances by borrowing and lending in the wholesale markets, and using new instruments such as swaps.

The extent to which societies use such instruments affects how much capital and liquidity they need to protect themselves against financial collapse, the commission says.

If they match the maturity of the funds they borrow with the maturity of the funds they lend, they have less need for liquid assets. If they use swaps a great deal, they will need larger capital resources in case the counterparties to the swaps fail to keep their side of the bargain.

The commission is, therefore, asking societies to draw up general outlines of how they plan to operate in wholesale markets, but to decide on the specifics themselves. Only in special cases are they asked to consult the commission in advance.

The paper is supplementary to papers on capital adequacy and liquidity published by the commission earlier this year.

Building Societies Act 1986: Prudential note 1987-82. Building Societies Commission, 15 Great Marlborough Street, London W1V 2AX. Free.

Miners see shift-work details

By Our Labour Staff

COALMINERS at Ellington colliery in north-east England have been presented with the first detailed proposals for a flexible shift system as part of British Coal's drive to introduce more flexible working practices.

The system, which would extend the 7¼-hour shift into a nine-hour shift, was presented to union officials by the area's industrial relations officer. He told the officials that he would deny knowledge of the system if it was disclosed.

Under the proposed system – which is aimed at cutting the shift time spent travelling to and from the coalface – the pit would work 52 weeks a year. Miners would work a four-day week, within a five-day production cycle.

Miners would be split into four teams. Team one, for instance, would in a single week start shifts on Monday and Tuesday at 2.00pm, have Wednesday off and then start Thursday's and Friday's shifts at 10.00pm. The following week they would work one 6.00am shift followed by three 2.00pm shifts.

Officials of both the National Union of Mineworkers and Nacods, the deputies union, have insisted the plans should be discussed at a national level.

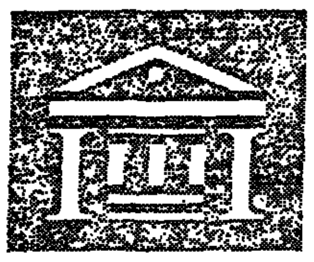
THE MONDAY PAGE

Meanings of malice

UNQUESTIONABLY, Archer v. The Daily Star, will for a variety of reasons, be written into the annals of English libel actions. If, however, the case palpably *fails to qualify for even so much* as a footnote in the legal textbooks or in the law reports, it may provoke discussion and public debate about important aspects of the law of libel.

An alleged alliance, between a public figure and a prostitute; damages of £½m, legal bills of costs amounting to nearly £1m; and an uneven-handed summing up to the jury by an idiosyncratic judge—these were the main ingredients of a lawsuit in which an Englishman's right to seek the remedy of a monetary award for a grave aspersion on his reputation triumphed handsomely over the claim by the press to a right (nay, a duty) to uncover even the private sexual peccadillos of a public figure, whatever dubious tactics had to be employed to bridge the gulf between what the newspaper claimed it knew to be true and what it could prove to be true in a court of law.

The case, tricked out in detail by daily coverage of the evidence over three weeks, has fed the apparently insatiable appetite of a public avid for sensation. But the comments have not all been favourable to the resounding victory for Jeffrey Archer, and even more resonant for Mrs Archer. One lawyer, when he heard the verdict, quipped (not entirely



JUSTINIAN

flippantly) that the jury's verdict represented something more like condign punishment of the press in order to finance a modest meal at an expensive restaurant and a jaunt or two before returning home to the fragrant pillows of a full life, than an unprecedentedly high monetary award to compensate a paraplegic for the loss of a full life.

The law's disparity of treatment between libel actions and personal injury claims will not go publicly unnoticed. Do we really value a person's reputation, momentarily tarnished but soon forgotten, so much more highly than the loss of the amenities and pleasures of daily living?

The urge to adopt the American approach is bound to surface, even though those most in favour of it—namely, the media—have the least right to proclaim it. In the US, a person who chucks his hat into the public arena—be he politician, entertainer or author—must suffer the heat of public comment.

In England, the defamatory words must be published "maliciously" of the plaintiff in the action, but the element of malice is a purely formal one. Malice has generally in the law an unfortunate ambiguity about it. In the law of libel, confusion is worse confounded. While malice elsewhere in the law may mean either intentionally doing a wrongful act without just cause or excuse, or doing an act with evil motive, in libel law it may not only have either of these significations but it may also be used in a sense which is totally independent of either intention or evil motive. It may include mere carelessness or even honest mistake. But a newspaper can be held liable for defamation where it made only an honest mistake which it believed to be true.

English law does not give any cause for concern to the defamed. He does not need to trouble himself with any shade of meaning which attaches to malice, provided that he has inserted the word "maliciously" in his statement of claim. From that point onwards in the litigation no one takes any notice of it, except at trial where the defendant pleads either fair comment of qualified privilege for the published words, in which case those defences can be destroyed by proof of malice, or for the purpose of inflating damages where there has been spite or deliberateness.

The American rule is that malice in the sense of motive has to be established in the case of a public figure. Hence, the greater ability of the press in the US to resist libel suits.

But it was not all bleakness for the media last week. The Court of Appeal, in a case brought by a boxing promoter against the Sunday Times, held that a defendant was entitled to plead justification of a defamatory meaning to words published other than the meaning exclusively attributed by the defamed person to the words published.*

The defendant could set up a spectrum of meanings from the most serious to other meanings not necessarily more or less serious but different from that pleaded by the plaintiff, so long as those other meanings were reasonably capable of being borne by the words of which complaint was made.

The Sunday Times had said of the boxing promoter that he spent most of his days in America where he had "formed alliances with Harold Smith, who was funding promotions with money stolen from the Wells Fargo Bank." The Sunday Times immediately responded to the complaint by disallowing any suggestion that the boxing promoter was in any way involved in using stolen money to fund boxing promotions. Instead, the Sunday Times alleged that, on the basis of certain facts that it intended to prove, it would seek to justify a meaning attributable to the words published, that the boxing promoter had behaved incautiously in his choice of business associates and also had acted disreputably by concealing from the California Athletic Commission the true amount of purses paid to boxers managed by the boxing promoter and his American associate.

That case will undoubtedly find its way into the law reports and the legal textbooks as an important precedent. If there is an appeal in the Archer case, the issue may not be just the size of the award of damages or the permissible bounds of comment by a judge in his summing up. The court may reflect on the proper ambit of malice in the law of libel.

* *Prager v. Times Newspapers Ltd (The Independent Law Report, July 23).*

Checkmated by balances

JOHN PLENDER

IT MAY be a *little late in* the day to say so, but this has not been a good year for the French political philosopher Montesquieu. It was he who popularised the idea of the separation of powers; and while it may have seemed an ingenious nostrum in 1748, it has caused pandemonium in US foreign policy this year as each new twist in the Irangate hearings has underlined the hazards of a constitution that encourages perpetual competition between President and Congress.

Then there was that rather tasteless best-seller called the Lettres Persanes* in which *two Iranians—yes, Iranians*—presumptuously chose to compare French politics, religion and manners unfavourably with their own. Given the Iranian readiness to promote terrorism in France and elsewhere, Mr Jacques Chirac could be excused for regarding this as a work of sedition.

And what are we to make of the arguments in L'Esprit des Lois† about the civilising influence of trade? "Commerce," said Montesquieu, "is the cure for destructive prejudices; and it is almost a general rule that where there is civilised behaviour there is trade; and wherever there is trade there is civilised behaviour." If this is true, why is the US Congress busy writing a trade bill the chief object of which seems to be to prevent trade rather than promote it?

The attraction to the founding father of Montesquieu's argument for the separation of the legislative, executive and judicial arms of government was, of course, the idea of checks and balances. These were intended, among other things, *to protect* the individual's freedom against the rule of the overmighty. The problem in Washington today is that anotherwise healthy American belief in competition has pervaded this ancient political structure to the *point of freebooting* absurdity: not just Colonel Oliver North with his do-it-yourself (or not as the case may be) foreign policy but obscure White House bureaucrats trying to deny an aeroplane to Mr George Shultz the Secretary of State, *for* the legitimate pursuit of the nation's interests overseas.

The traditional complaint about a constitution that has very little to say about foreign policy is that it imposes indecision on one of the world's superpowers. Certainly Congressional concern about the President's support for the Contras has led to a half-cock policy in Nicaragua, regardless of its rights or wrongs. Yet the checks and balances are curiously selective. The sudden deployment of the US navy in the Gulf in response to a Soviet overture to Kuwait and an Iraqi assault on the US Stark looks more like a precipitate gamble than the result of a coherent, checked and balanced policy.

A constitution that offers few powers, and mainly negative ones at that, is arguably *at its worst when it comes to* the budget. For it has no answer to the problem of a stubborn, septuagenarian President who refuses to follow the wisdom of other tax reformers around the world by raising consumption taxes to pay for cuts in income tax. The trade bill, meanwhile, raises a question about the readiness of Congressmen to exploit the constitutional tension between the executive and the legislative branch. Are they putting economic absurdities *into the bill* to satisfy a political constituency back at home on the assumption that a Presidential veto will correct the nonsense while leaving the political gain intact.

The recent thrust of US trade policy is designed to cope with a problem that scarcely existed in Montesquieu's day. The Americans have simply had too much of a good thing. One consequence of the structural budget deficit is that US consumers have enjoyed access to cheap Asian electronic goods and US home buyers have had access to cheap oriental capital; but in their capacity as employees and producers they have been appalled at the impact of imports on US industry. Economic interdependence taken to this extreme leads inevitably to protection.

In the developing world, on the other hand, trade can scarcely be said to have won a sweeping victory for civilised values. Iran, after all, is a long way from autarky. That is not to say that Montesquieu was wholly wrong; he simply *oversold his* point. Even for the Iranians trade must be a factor in foreign policy decision-making, since they need export revenues to prosecute the war with Iraq. But only a small one since trade embargoes are rarely successful.

None of this gives Europeans any right to feel superior about their own constitutions or foreign policies. Britain *in the 19th century* could hardly be said to have performed with uniform decisiveness. Think of Gladstone's half-hearted and belated response to the plight of General Gordon in Khartoum. And it is hard to see how France's policy of selling arms to Iraq while trying to curry favour with the Ayatollahs could be regarded as any more coherent than US policy towards Iran.

As for the future, is Japan's constitution any more likely to make for coherent foreign policy making in the 21st century? The constitutional reforms of the Meiji Restoration had their roots in 19th century Germany. Next week, Lorenz von Stein and the concept of social monarchy. . .

* *Lettres Persanes, Jacques Desbordes, Amsterdam, 1721.*
† *L'Esprit des Lois, Barrillot et fils, Geneva, 1748.*

INTERVIEW

Drive, he said

Paul Betts meets Jacques Calvet, head of Peugeot-Citroen

JACQUES CALVET, the head of the private Peugeot-Citroen car group, has set himself an ambitious new challenge. "I want the group to become not just number one in European car registrations but also number one in profitability among European car makers during the next four to five years," he says, test driving the recently launched Peugeot 405 medium sized saloon in the lush countryside around Lyon.

A few years ago it would have been difficult to imagine Mr Calvet test driving one of his group's new models with such undisguised relish and speaking so confidently about Peugeot's prospects of becoming the leader of the European car industry. When he joined the car group barely five years ago, Peugeot was in the throes of a major financial crisis and on the brink of bankruptcy. Calvet then had little direct experience of industry: he began as a civil servant and then became chairman of France's biggest commercial bank, Banque Nationale de Paris (BNP).

"I was forced to leave BNP and a job I liked when I was kicked out by the sympathique socialist government," says the man who was once Giscard d'Estaing's Directeur de Cabinet.

But since taking over at the helm of Peugeot and engineering a spectacular financial and industrial recovery, Calvet has become a leading, often outspoken, figure of the French industrial establishment. Initially, however, Calvet found himself in the midst of a major controversy—he took the former socialist government head on by launching a Draconian programme of restructuring and job cuts at Peugeot. The controversy reached a climax with the famous "battle of Poissy" when violent clashes erupted in the large plant outside Paris, taken over by Peugeot when it acquired Chrysler's European operations in 1979.

The incidents at Poissy acted as a catalyst in labour relations not only at Peugeot, but within French industry as a whole. "There has been a dramatic evolution in trade union and blue collar worker attitudes towards restructuring and modernisation," acknowledges Calvet whose reputation as an industrial axeman, a sort of French version of Ian MacGregor, is now something of the past.

Calvet claims that there has not only been a revolution in the attitudes of French unions and workers but also in those of top and middle management. "Chief executives and senior management in French industry have now realised that not only are men mortal but so are enterprises. They have realised too that they must take bold, and at times difficult, steps if they are to survive."

Thus Calvet *is* cautiously optimistic about the future prospects for French industry *and* Peugeot. *After* accumulating more than FFr 8bn (£0.8bn) in losses between 1981-84, Peugeot returned to the black in 1985 with earnings of FFr 543m and a sharp rise in profits last year to FFr 3.6bn.

But he is concerned about what he sees as a number of storm clouds both at home and abroad which could jeopardise this recovery. "When I was at the bank I started worrying about the risks of major international financial and economic crisis. Somehow we will have to find a way to restore world growth and I believe this will have to come from agreement by the major industrialised countries." He adds that the major industrialised countries do not at present have "the global vision necessary for such action."

Calvet feels the danger is all the greater because Europe is not preparing itself adequately for future trade battles. "I don't think you can build a unified market inside Europe unless you have a common European external trade policy first. This is not protectionism but a safeguard from other big entities which might either adopt too aggressive a trade stance or not respect the general rules of the game.

"Let's not be dreamers. I am a supporters of free trade but it must be practised by all parties." He defends the existing quotas by some European countries like Italy and France on Japanese car imports. "If we did away with them now, it would have major consequences on our *sales*."

Even the vision of a united Europe, which he pursued with Giscard in his Finance Ministry days, is haunted by Japan.

"I am worried that the unified European market will make it easier for the Japanese to penetrate. I am also worried that we might not gain all we hope for from the unification of standards. The advantage would only be significant if the unification was done on a reasonable basis and based on European rather than American standards."

In addition, though the general industrial outlook has improved in France, Calvet makes no secret of his concern about the French political situation. He has deep misgivings about political "cohabitation" in France. "I am openly hostile to the idea of a president and a parliamentary majority of different political camps sharing power." He admits that many people think that France will again be plunged into another period of political power sharing after the presidential elections next year, but he likes to hope that this will not be the *case. "It is difficult to predict* what will happen a year before the elections. Look what has just happened in the UK."

In the immediate term, he says French industry is still burdened by real domestic interest rates which discourage *investment because they are* too high. But he describes as "absurd" the current thesis in *France that French enterprises* prefer to make financial investments rather than industrial ones because they are more profitable.

He says Peugeot is planning to invest FFr 9-10bn a year over the next three years, or *about FFr 30bn in total* capital investment. With such an investment programme, he sees little room for other ventures.

Peugeot has been asked to invest as a core shareholder in some of the newly *denationalised French groups.* But even if the Peugeot group, with its newly-found financial health, could afford to invest FFr 100-200m in a privatised group, Calvet, for "psychological" as well as financial reasons, has preferred to stick *to his automobile investments.*

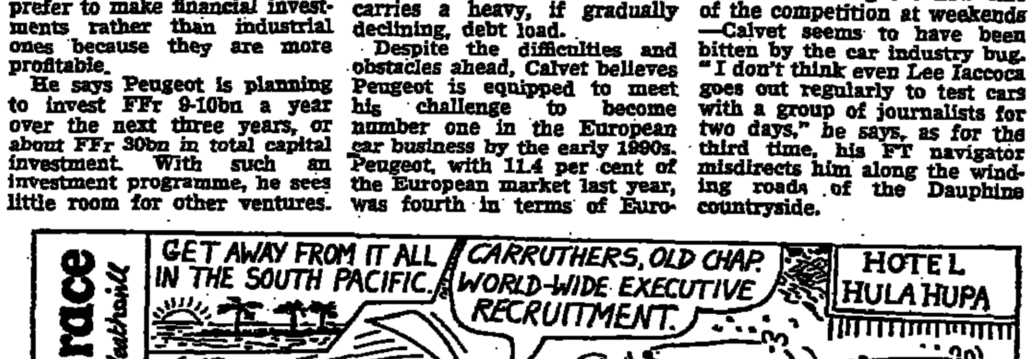
Another political concern of Mr Calvet is the French government's attitude towards Renault, the financially troubled state car group—and Peugeot's main domestic competitor. He expresses the deepest *respect for the* management of Renault and the efforts it has recently made to restructure and recover. But he is worried that the French government may be tempted to step in to help restructure Renault's balance sheet (burdened by some *FFr 60bn* of debts) with support which would distort competition. "I think the recovery of Renault should come from within the group and not as a result of external help," he argues, adding that Peugeot, after all, recovered on its own and still carries a heavy, if gradually declining, debt load.

Despite the difficulties and obstacles ahead, Calvet believes Peugeot is equipped to meet his challenge to become number one in the European car business by the early 1990s. Peugeot, with 11.4 per cent of the European market last year, was fourth in terms of European registrations after Volkswagen-Audi, Fiat-Lancia and Ford, and ahead of GM and Renault. "*This target* is a way of motivating the company —giving it a new goal after successfully returning to the black from the brink of disaster. The group has the capacity to do this with its modernisation programme. But we have no *choice if we want to maintain* our current strategies and policies. After all, our group consists of two separate car companies, Peugeot and Citroen, each with a specific character and car range which I want to maintain."

This target has also given Calvet a new personal challenge. It seems to indicate an intention to continue running Peugeot for some time, although se likes to say "no one is the exclusive owner of his executive chair." In the past there has been speculation that Calvet had his eye on a top ministerial post in a new right-wing government. But judging from the way he spends time with journalists, testing every new model or major version which his group brings out—and driving the new cars of the competition at weekends—Calvet seems to have been bitten by the car industry bug. "I don't think even *Lee Iaccoca* goes out regularly to test cars with a group of journalists for two days," he says, as for the third time, his FT navigator misdirects him along the winding roads of the Dauphine countryside.

● PERSONAL FILE

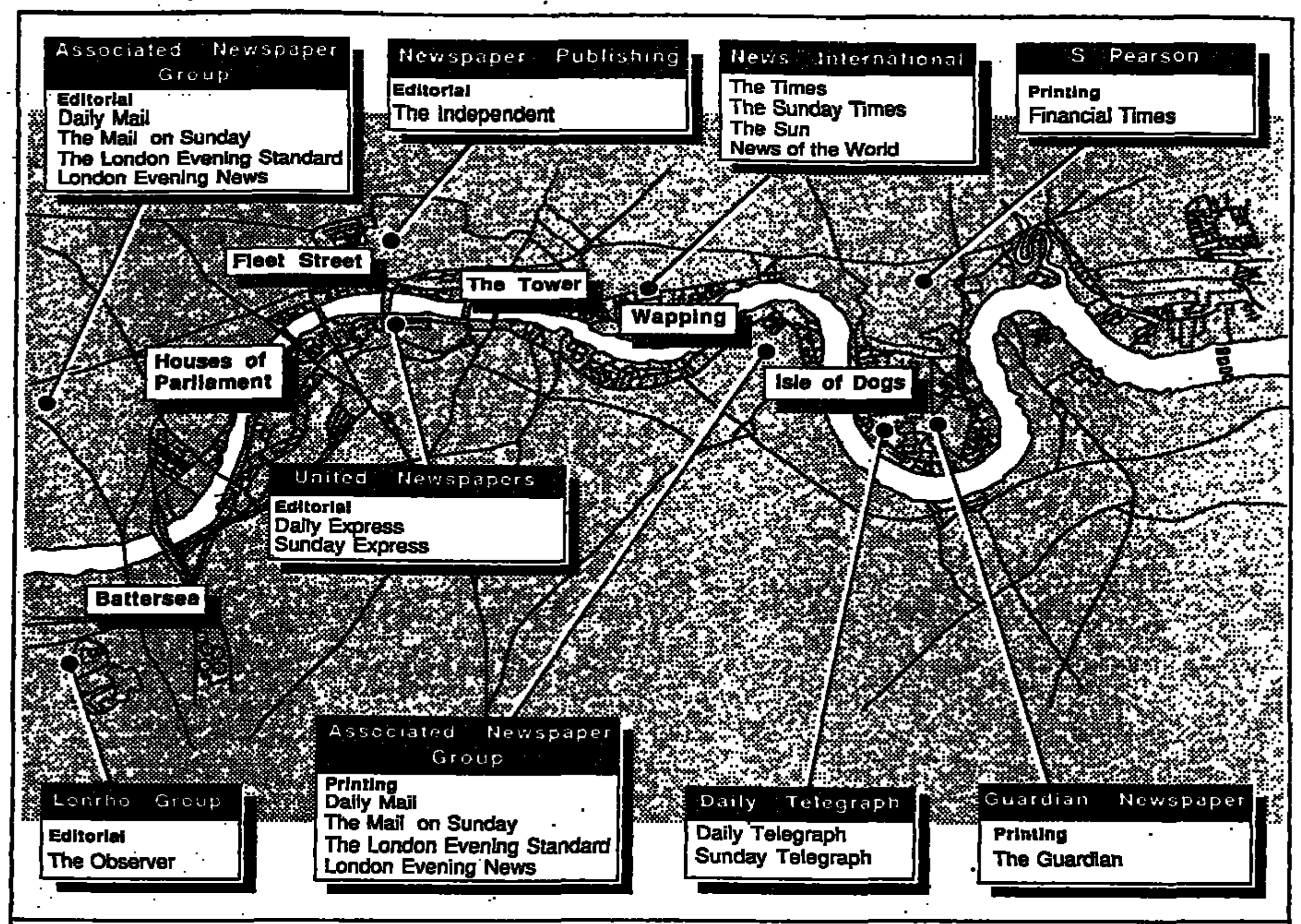
1931 Born, Boulogne sur Seine; educated Lycée Janson-de-Sailly, Faculte de Droit de Paris, Ecole Nationale d'Administration. Various positions in French administration, especially Finance Ministry where he was Directeur de Cabinet of Valery Giscard d'Estaing when the former President was Finance Minister between 1970-74.
1974 Deputy managing director, *Banque Nationale de Paris.*
1976 Managing director.
1979 Chairman.
1982 Joined Peugeot group.
1984 Chairman of group.



FINANCIAL TIMES SURVEY

Britain's national newspapers are experiencing something akin to the Big Bang in the City. As the man-made barriers which prevented technological advances come down, the transformation into a modern high-tech industry proceeds at an accelerating pace. **Raymond Snoddy** explains.

A big bang on the front page



The Newspaper Industry

IT IS NOW a commonplace to describe the dramatic events of the past 18 months in the British national newspaper industry—Mr Rupert Murdoch moving all his titles to Wapping in a single weekend, the launch of new titles and the introduction of up-to-the-minute computer technology as a revolution.

In fact it is more a catching-up with the rest of the world, including regional newspapers in the UK, than a revolution—a process that has been artificially compressed into such a short period because the barriers holding back change had proved so effective in the past.

Yet whatever it is called the scale of transformation in the affairs of Britain's national newspaper industry is difficult to exaggerate.

Ancient printing equipment that would fit naturally into a museum of printing is at last being replaced. Traditional manning levels and restrictive practices are on the way out, in most cases by agreement between unions and management, after the defeat of the bitter strike by sacked print workers against Mr Murdoch's News International.

Perhaps even more significant for the future is the transformation in profits now under way.

National newspapers are increasingly becoming a business rather than a plaything of peers or those who would like to become peers.

By next year the national newspaper proprietors will have invested more than £1bn in new equipment and redundancy payments and more than 13,500 job cuts have either taken place or been announced from a total workforce of 30,000.

The result, according to a recent study by Mr Derek Terrington, publishing analyst of stockbrokers Phillips & Drew, is that by 1988 national newspapers will have revenues of £1.65bn and pre-tax profits of £205m. This compares with revenue of £1.4bn in 1985 and pre-tax profits of £50m.

Further savings over the next 18 months might bring profit margins up to 15 per cent.

"This figure is less than exotic, but it is five times what the industry is used to and brings national newspapers up to the levels of the best-managed regional newspapers," Mr Terrington argues.

All the signs are that publishers, once the short term investment costs are absorbed are likely to generate substantial surpluses which will be available for expansion and diversification.

In retrospect, events outside the premises of a small publisher of free newspapers in the north of England in November 1983 were of critical importance.

With the help of new laws against secondary picketing Mr Eddie Shah took on the power of the print union, the National Graphical Association and won. The television reports of the violence on the picket lines turned Mr Shah almost overnight into a nationally known figure.

He was able to use that fame to raise money for Today, the revolutionary new colour tabloid that would use all the latest technology to create a new low-cost national newspaper. Today would end what many saw as the collusion between management and unions which kept the cost of producing newspapers up, effectively keeping out new entrants.

"We're going after an industry that's just ripe to be taken, it just needs one guy," said Mr Shah with his customary self-confidence.

It was not to be. Today, the independent newspaper that was supposed to shake Fleet Street to its roots, had in fact to be rescued from collapse by a Fleet street proprietor, Mr Tiny Rowland of Lonrho.

At the end of last month Today changed hands again, this time bought by Mr Murdoch for £38m despite estimates that it will lose £30m in the year to September.

Today was, however, the catalyst for change. The threat of Today enabled Mr Robert Maxwell to negotiate more than 2,000 redundancies at his Mirror Group Newspapers.

It was, however, the move of all Mr Murdoch's four titles—The Times, Sunday Times, Sun and News of the World—to a secretly and carefully prepared modern printing plant at Wapping that made the process irreversible. More than 5,000 printing workers who went on strike were deemed to have dismissed themselves and they were never taken back.

Mr Murdoch moved immediately to direct-input—journalists keying in their stories directly on electronic screens for automatic setting by computer driven typesetters cutting out the traditional re-keying of text by printers.

As a matter of survival other national newspaper managements quickly began negotiating new technology deals and swingeing cuts in manning levels.

In April 1986, for example, Express Newspapers reached agreement, with the help of a closure ultimatum, for 2,500 voluntary redundancies. At the beginning of this month the management asked for a further 2,500 job cuts. By 1990 the Daily and Sunday Express and The Star will be produced by a total of 2,300 compared with more than 7,000 less than two years ago.

Ironically "the sleeping giants of Fleet Street" such as the Express, the Daily Mail and the Daily Telegraph have woken from their slumbers so rapidly that it is the established titles which have benefited most from the changed conditions.

Entry costs may have been reduced but new titles have found it a difficult and costly market to break into.

Readership levels overall are static at best and there is considerable evidence of conservative behaviour by readers—sticking to the papers with which they are familiar.

The collapse of Mr Maxwell's London Daily News is the most dramatic example so far, although high losses also forced the closure of Sunday Today. The Daily News never made headway against the established London Evening Standard, and at the end was selling less than 100,000 a day and probably losing close to £1m a week.

The main exception is The Independent founded by three former Daily Telegraph journalists who managed to raise more than £18m in the City of London. They have managed to carve out a niche for themselves at the top end of the market and win journalistic awards. Although circulation is now above 320,000 the paper is not likely to break even until next spring.

Sunday Sport a down-market tabloid set up with capital of £150,000 has also carved out a niche for itself with the help of pictures of naked ladies and is said to be profitable on a ciculation of 500,000.

Other dramatic changes include the exodus from Fleet Street. Partly because of cramped conditions and the profits to be made from selling existing plants for development many papers, including the Financial Times, are building modern new printing plants in London's Docklands. Others have opted for a series of new plants around the country or moved to contract printing.

The appearance of British newspapers is being transformed by the improved reproduction and after initial doubts proprietors are increasingly seeing colour as a competitive weapon in the intense battles for circulation at the popular end of the market.

Mr Murdoch is already introducing colour into the News of the World and Mr Maxwell has announced that he too is planning to print his titles in colour.

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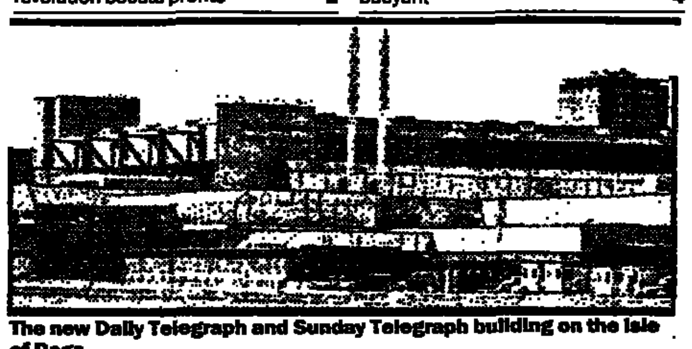

The new Daily Telegraph and Sunday Telegraph building on the Isle of Dogs

Mr Maxwell is also offering advertisers and promoters the opportunity to insert pre-printed material in his newspapers from the end of this year. A multi-million pound order for sophisticated inserting equipment has been placed with Ferag of Switzerland for his 21 new presses. The equipment inserts advertising material—or regional supplements—at the same speed as the presses turn.

The hope is that inserting will prove a significant competitor to direct mail and provide a new stream of revenue for daily newspapers.

National newspapers may have been capturing the headlines but there have also been remarkable changes in the local and regional newspaper industry.

Regional newspapers point out with justice it was they rather than Fleet Street who have been the pioneers in everything from use of computer technology and colour to the introduction of direct input.

This month the 100th direct input agreement was signed and the Newspaper Society which represents regional and local publishers believes the total could be 150 before the year is out.

The first agreement at the Wolverhampton Express and Star caused a furore in the industry. The 100th at the Southport Visiter slipped quietly into place.

Free newspapers have succeeded in carving a major slice of the market for themselves, both free and paid-for local newspapers are enjoying buoyant trading conditions although higher newsprint prices are pushing up costs.

Last year regional press advertising rose by 10 per cent to £1.1bn and the Advertising Association expects real growth of 10 per cent this year.

Despite the proliferation of electronic media the process of renewal in the British newspaper industry should help to ensure that its future is secure.

THE NEWSPAPER INDUSTRY 2

After the euphoria is over, a look at how the new titles are faring

The high cost of getting it wrong

FOR A short time last year it seemed as if hardly a day passed without the announcement of yet another plan for a new national daily or Sunday newspaper.

Direct input technology, contract printing and drastically reduced manning levels had all combined to cut the price of entry. It was no longer necessary to be a millionaire peer in order to be a newspaper proprietor—almost anyone with access to modest financial backing could find a way into the business.

There were plans for new down-market dailies to undercut the Sun and the Star; and some believed that the era of specialist dailies, aimed at niche markets, had finally arrived. With costs so reduced, why not set up specialist, low-circulation newspapers aimed at women, sports fans or the fashion world?

Eighteen months after the launch of Britain's newspaper revolution, the euphoria has gone, and the performance of most of the new titles so far makes sobering reading.

The most devastating blow came on Friday when Mr Robert Maxwell, publisher of Mirror Group Newspapers, decided unexpectedly to close his new 24-hours-a-day paper, the London Daily News.

Losses, estimated to have been running at around £1m a week, were in the end more than even Mr Maxwell could bear, and more than 200 journalists lost their jobs.

Mr Maxwell launched the new paper in February, determined to break the "monopoly" of Lord Rothermere's London Evening Standard. The Mirror proprietor hoped to get a circulation of 500,000, but sales fell rapidly to 350,000 and at the end were less than 100,000. It was the first of the new titles to close.

Lord Rothermere had countered the launch of the LDN with clever promotions—a draw for free houses, provided you collected three weeks special coupons—and a revived London Evening News.

Within a matter of days last month, receivers were called in at the News on Sunday, the new left-of-centre newspaper; and Today, the revolutionary colour tabloid founded by Mr Shah changed hands for the second time since its launch.

In different ways, both illustrate the difficulties of launching new newspapers into a highly competitive marketplace where overall readership levels are static at best.

The News on Sunday, a dream of the left for many years, ran into a financial crisis two weeks after its launch, when sales fell rapidly to 350,000 compared with break-even targets of more than 800,000.

The ill-conceived, poorly marketed and under-capitalised paper has been rescued by a consortium headed by Mr Owen Oyston, the Lancashire businessman with extensive commercial radio interests, and the Transport and General Workers' Union. But with a circulation now under 200,000 the News on Sunday faces a long battle for survival.

When Mr Rupert Murdoch beat rival publisher Mr Robert Maxwell to the draw and bought Today from Mr Tiny Rowland's Lonrho for £38m, he took on a newspaper that was expected to lose about £30m in the year to September.

Enormous effort and expensive television advertising campaigns have painfully raised Today's circulation to 330,000, but this achievement looks modest compared with the early days when Today executives talked of selling 1m copies.

It will take all of Mr Murdoch's legendary powers of turning round loss-making newspapers to make a profit at Today in the battle for the middle market against the Daily Mail and the Daily Express.

Curiously, the only new title which claims to be in profit is the very down-market Sunday Sport, a newspaper launched by girlie magazine publisher Mr David Sullivan with a budget of around £150,000. The diet of royal gossip, naked ladies and sport has already produced a circulation close to 500,000. Mr Sullivan has told his staff that as soon as the circulation rises above 700,000 they can go daily.

The only unambiguous success story so far is The Independent, at the upper end of the market. In the face of considerable scepticism, three former Daily Telegraph journalists, led by Mr Andreas Whittam Smith, raised £18m in the City of London and went on to carve out a circulation of more than 320,000.

Though The Independent won the Newspaper of the Year award, it is still losing around £200,000 a month and breakeven is not expected before next spring.

The Independent believes that its maximum cash requirement of £3.488m will come next April, and that it stands a good chance of getting by on its overdraft without having to go back to its shareholders for more finance.

As the struggle for viability continues, the overriding message from the new titles so far is that technology may have changed but that the marketplace has not, and some very old-fashioned rules still apply to new entrants.

To stand any chance of success, a genuine gap in the market must be found. It must then be filled with a precisely targeted and properly marketed editorial product of high quality.

According to Mr Derek Terrington, publishing analyst of stockbrokers Phillips & Drew, in order to create a viable new title, the targeted market segment should be growing and should serve a higher income group.

Even then, potential new national newspaper properties should usually count on the need for second-round financing after the first has been absorbed. The cost of entry may have been lowered, but the cost of getting it wrong is as high as it ever was.

Raymond Snoddy

Yesterday's and tomorrow's men at Today (left to right): Mr Eddy Shah, who started the title; Mr Tiny Rowland who took over and Mr Rupert Murdoch, the present owner

The demise of Fleet Street

Survival by exodus

THE DEATH was formally announced on July 2 of Fleet Street, the traditional heart of the British national newspaper industry. The end had effectively come 18 months ago when Mr Rupert Murdoch took his then four national newspaper titles to Wapping on the edge of London's Docklands in the course of a single weekend.

But the process was completed this month when Express Newspapers, the last of the national titles to make up its mind, decided that it too was joining the exodus.

The shiny black headquarters built by Lord Beaverbrook and known affectionately as the "Black Lubyianka" was being put up for sale and the Express journalists too were packing their bags.

The complex package of measures announced by Lord Stevens, chairman of United Newspapers, owners of the Express group, is a perfect example of the wide range of options now open to newspaper proprietors.

Like other newspaper proprietors the Express group was moving to direct input of copy by journalists, cutting out an entire production process, the double keying in of copy by compositors.

The changes would also be accompanied by swingeing job losses. When United took over Express Newspapers from Fleet Holdings in October 1985 the three national titles, the Daily and Sunday Express and the Star were produced by more than 7,000 people, including casuals. By 1990 the plan is that the same three newspapers will be produced by 2,300 giving an enormous boost to profitability.

Unlike other papers the Express has neither decided to build its own new printing plant in the Docklands or go fully to contract printing at different sites around the country.

United has put together a printing package using Goss Headliner offset presses that involves extending its Manchester plant and using a new United Provincial Newspapers plant at Broughton near Preston.

The company will get its southern print run from a joint venture with the Daily Telegraph at West Ferry Road on the Isle of Dogs in a deal remarkably similar to the Telegraph joint venture with Mr Murdoch in Manchester.

July was also the month in which Daily Telegraph journalists, near Fleet Street neighbours of the Daily Express themselves moved to the Isle of Dogs not far from their new printing plant.

A new printing plant for Associated Newspapers, publishers of the Daily Mail and The Mail on Sunday is also taking shape in Surrey Docks and from next year Mail journalists will move to new headquarters above a department store in Kensington.

Financial Times journalists are also on the move after Pearson, the newspaper's owners, sold Bracken House to a Japanese construction company for £143m. New editorial offices are now being sought somewhere between the West End and London Bridge.

Although most publishers have decided to build their own new printing plants in Docklands, The Independent has proved it is perfectly feasible to have no presses at all.

The Independent, now selling more than 320,000 copies a day, is entirely produced by contract printers in different parts of the country. The Observer has gone the same route and The Guardian is being printed under contract at the moment until its new Docklands printing plant comes on stream in the autumn.

Mr Robert Maxwell's Mirror Group Newspapers has plumped for yet another option—distributed printing at his own plants around the country. Mr Maxwell confirmed recently that he intended to move all his papers over to colour printing at new plants in London and the regions with significant loss of printing jobs at the Mirror headquarters at Holborn Circus.

"Holborn Circus will cease to be a manufacturing centre very very soon," Mr Maxwell said. As Mr Maxwell negotiates with his unions on plans for distributed printing he may have also had a profound effect on how newspapers are delivered in Britain.

Mr Maxwell threw the entire system of distributing newspapers by rail into doubt when he took his titles to road delivery from July 1. It seemed to be the end of the line for a distribution system already plunged into loss by Mr Murdoch's decision last year to deliver by road all his newspapers from Wapping.

Now British Rail has offered remaining national newspaper customers a new deal involving a 7.5 per cent price cut. The savings would come from the amalgamation of trains and would mean earlier edition times.

If the deal is accepted the new arrangements could begin in October and at least some of Britain's newspapers will continue to travel through the night from the great London stations and be sorted at 70 mph as they have throughout this century.

If the BR offer is rejected and the remaining publishers choose road delivery yet another link with tradition will have been broken.

Raymond Snoddy

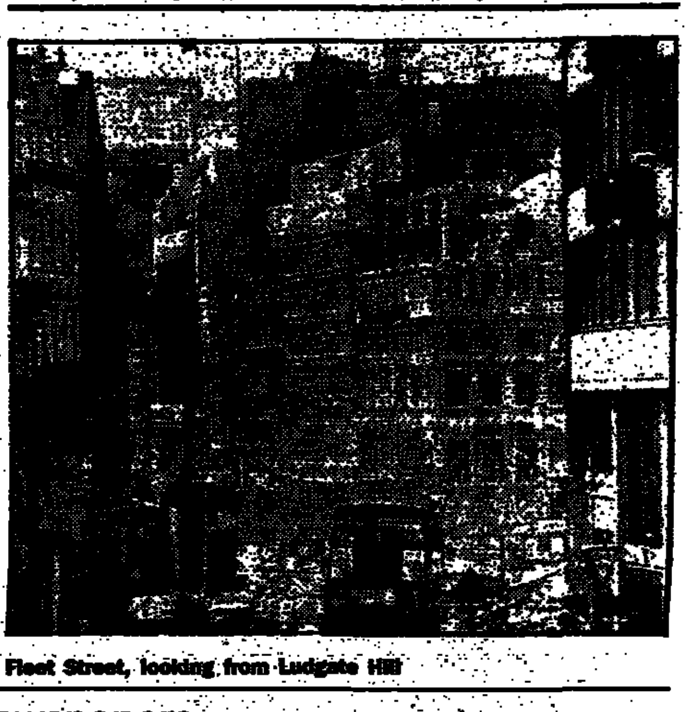
Circulation—market share

'000s	1971	1976	1981	1986	% change 1971-86
Popular dailies					
Sun	20.8	31.5	31.7	33.1	+59
Daily Mirror	36.4	32.2	26.1	25.7	−29
Daily Mail	14.6	14.8	14.4	14.1	−3
Daily Express	28.2	21.5	16.3	14.1	−50
Star	—	—	11.5	10.5	n/a
Today	—	—	—	1.5	n/a
%	100.0	100.0	100.0	100.0	—
Quality dailies					
Daily Telegraph	62.9	62.4	60.0	45.2	−28
Guardian	14.7	14.5	17.8	20.3	+38
Times	14.8	14.7	13.3	16.6	+26
Independent	—	—	—	5.7	n/a
Financial Times	7.6	8.4	8.9	10.2	+34
%	100.0	100.0	100.0	100.0	—
Popular Sundays					
News of the World	31.1	30.4	29.1	33.0	+6
Sunday Mirror	23.9	24.5	25.8	20.3	−15
Sunday People	24.3	24.5	24.7	19.9	−18
Sunday Express	20.7	20.6	20.4	14.6	−29
Mail on Sunday	—	—	—	10.7	n/a
Sunday Today	—	—	—	1.0	n/a
%	100.0	100.0	100.0	100.0	—
Quality Sundays					
Sunday Times	47.4	49.2	43.1	44.1	−7
Observer	27.1	23.4	28.0	29.6	+9
Sunday Telegraph	25.6	27.4	28.9	26.3	+3
%	100.0	100.0	100.0	100.0	—

Source: ABC. Based on figures for the second half of each year

National newspapers—trading record

£m	1982	1983	1984	1985	1986
Revenue	1110	1180	1290	1400	1500
Pre-tax profit/(loss)	(18)	28	32	50	79
Margins (%)	—	2.4	2.5	3.5	5.3



Fleet Street, looking from Ludgate Hill

Regional newspapers

Profiting from the revolution

Brighton Evening Argus pressroom transformation means fewer men and faster printing

FROM TIME to time regional newspaper publishers are billed as the "unsung heroes" of the newspaper industry. In many ways the epiphet is wholly appropriate.

When the national newspaper industry finally succeeded in hauling itself—together with its production processes and working practices into the 20th century—its efforts were billed as the "newspaper revolution." Yet it was the regional publishers who pioneered the use of new newspaper technology in Britain, long before the nationals.

Similarly regional newspapers are all too often regarded by the advertising industry as the "poor relations" of the national titles. Yet the regionals have sported healthy growth since the early 1980s. Moreover one part of the industry—free weekly papers—has proved to be particularly dynamic.

"The industry has really been very buoyant indeed in the past few years," said Mr Mike Waterson, director of research at the Advertising Association. "The growth of the free papers tends to dominate the picture but the paid-for papers are also doing very well."

In recent years the rise of the free papers has changed the regional newspaper industry. Free newspapers first emerged in Britain in the late 1960s when a band of entrepreneurs set up small publishing companies, generally on a shoestring. The first free papers, "freesheets" as they were called, were flimsy affairs filled only with advertising and stuffed, unsolicited, through letter boxes.

Freesheets posed little threat to the established regional weeklies in terms of editorial coverage, but their effect on the advertising market was dramatic. Not only did the paid-for papers face a new source of competition but fierce discounting diluted advertising rates in their area.

The free newspaper industry grew steadily through the 1970s. By the early 1980s the freesheets had become more sophisticated. The cannier entrepreneurs had begun to invest in the editorial content of their papers.

In 1984 the free weeklies secured more advertising revenue than the paid-for weeklies for the first time. That trend has since accelerated. Last year the free weeklies attracted advertising worth £314m, or 29 per cent of all regional newspaper revenue, according to the Advertising Association. By contrast the paid-for weeklies secured just £243m.

Free papers are now an established part of the newspaper industry. One freesheet entrepreneur, Mr Eddie Shah, has become a household name: first through his battles with the print unions at the Messenger Group, and later in his attempts to launch Today as a national newspaper. Moreover, as the free papers have grown, many of the established paid-for paper publishers have launched freesheets of their own.

The rise of the free papers has sealed the demise of some of the traditional paid-for regionals. This culminated in United Newspapers' decision to close the Sheffield Morning Telegraph, the oldest daily paper outside London, last year. United cited the Morning Telegraph's loss of property advertising to free papers as the reason for the closure.

Earlier this year Westminster Press—owned by Pearson which publishes the Financial Times—completed its withdrawal from the publication of suburban weeklies in order to concentrate on its regional daily and county weekly papers. Again the rationale behind the decision was competition from free papers.

Yet the overall picture of the established regional newspaper industry is far from gloomy. In recent years the paid-for papers have battled back against their free counterparts by investing in editorial, new technology, marketing, and even in new launches. As a result the industry has a much more dynamic air.

"Regional newspaper publishing is an industry in which competition has been healthy," said Mr Tony Pennie, newspaper analyst at James Capel the stockbrokers. "The freesheets came in with new ideas and a low cost structure: and the paid-for papers have been forced to respond. Recently the industry has become markedly more profitable and much more confident about its future."

The experience of Portsmouth & Sunderland bears this out. After years of dispute with its print unions, the company finally succeeded in introducing new technology in late 1985. This not only reduced the cost base of the company but has enabled it to nurture a new source of income as a contract printer for The Guardian and The Independent.

Moreover once new technology came on stream the company has been able to concentrate management resources on improving the editorial and marketing of its papers. Portsmouth & Sunderland's pretax profits rose by 74 per cent to £2.27m in its last financial year and the company is now keen to augment its newspaper interests by acquisition.

Meanwhile regional press advertising is extraordinarily buoyant. Given that regional newspapers are heavily dependent on classified, and thus recruitment, advertising their fortunes are closely linked with that of the economy. In the present economic climate, classified advertising is booming.

Last year regional press advertising rose by 10 per cent to £1.1bn. The Advertising Association expects real growth of 10 per cent this year to slow down, with the economy, to 3 per cent in 1988.

Alice Rawsthorn

Far-reaching technological advances in printing have eliminated many processes which proved costly to run

Era of direct transmission

LONG BEFORE the last typewriters have been replaced by electronic newsrooms the race is on to produce the first completely integrated system that can take copy from journalists and advertising executives and turn it directly into printing plates.

Mr Alec Hollingworth, managing director of Atex, the Kodak subsidiary which says it has more electronic newsroom systems installed than any other company, believes "direct to plate" will arrive by the end of this decade.

This is likely to bring in its wake the potential for more savings in the production processes of newspapers almost before the effects of the first wave of electronic technology has been fully absorbed.

"The pace of technological change in the industry is accelerating," Mr Hollingworth says.

The company is at present introducing a new "page production mode" in the Boston Globe, a system to control the vast amounts of information involved in full-page make-up computer screens.

Mr Hollingworth believes that full pagination, the integration of text and graphics on screen with the speed and flexibility needed for daily newspapers, will be a practical reality by the end of next year.

The race is now on to produce totally integrated newspaper computer systems for the smallest weekly as well as the mass circulation daily.

The moves towards greater integration can be seen in the business decisions of companies in the increasingly competitive market.

Until recently companies such as Atex, Systems Integrators (which has a $5m system installed at the Financial Times), Hastech, Xenotron and CSI focused on text composition, classified adverfising composition and monochrome page assembly.

Different companies such as Crosfield, Hell and Scitex produced colour equipment with communication systems being offered by companies such as Muirhead, Chemco and Matsushita.

Last year Crosfield Electronics, a wholly owned subsidiary of the De La Rue Company, acquired no fewer than three specialist companies in the drive towards being able to offer an integrated technological package.

Crosfield bought Hastech and CSI in the text processing and pagination area and Muirhead Data Communications.

Recent orders include the installation of a sophisticated terminal network at Mr Robert Maxwell's 24 hours-a-day paper, the London Daily News.

In a similar manner Hell, a subsidiary of Siemans, the West German electronics and telecommunications group, has acquired Xenotron, producers of pagination equipment.

"The underlying logic is not only to offer newspaper management a sole vendor for their entire pre-press needs but to ensure a fully integrated technical solution," Crosfield says.

The company employs 2,500 people, 1,100 of them in the UK and had a turnover of £192.1m in 1986.

Like Crosfield, ND Comtec, a subsidiary of the fast-growing Norwegian mini-computer company Norsk Data, says its systems are geared towards "the complete publishing management enviroment."

The company argues it is in a good position to integrate activities such as editorial, advertising, circulation and office automation through a common database. This is made possible by the common hardware and operating system provided by the Norsk Data computers.

ND Comtec was launched in the UK in 1984 and now has more than 1,000 terminals installed at 23 sites.

Most are relatively small local and regional newspapers although ND Comtec's largest order in the UK is for a 195-terminal system for editorial, advertising, production and accounts at The Scotsman.

ND Comtec, which has more than 300 newspaper installations across Europe, believes that as the cost of computing power comes down and the sophistication of the systems on offer increases "publishers will take advantage of a new freedom to diversify their products, bringing out more titles with shorter print runs."

Both Crosfield, which user Digital Equipment Company computers and ND Comtec emphasise the need for computing power to drive complex integrated systems.

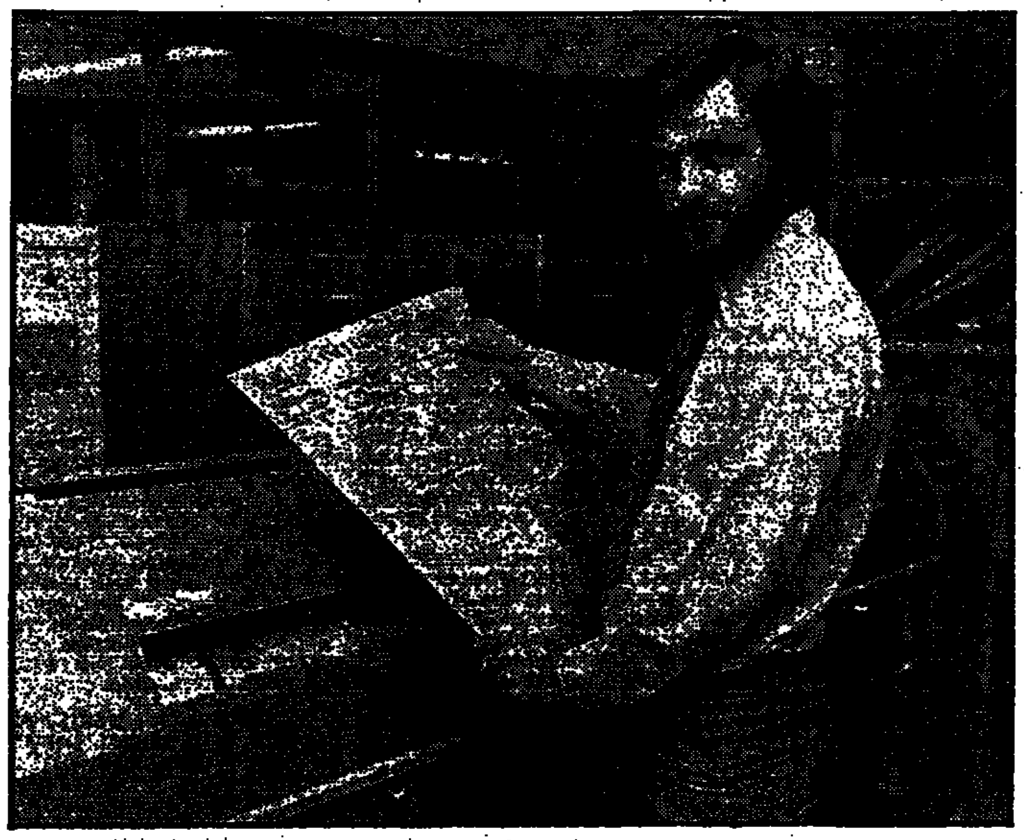
Mr Eddy Shah, who sparked one newspaper revolution by setting up Today (using a Hastech news system) believes he has spotted another—desktop publishing.

Mr Shah says that expensive computer systems are now unnecessary and that the wave of the future is the networking of relatively inexpensive microcomputers and the use of even cheaper software.

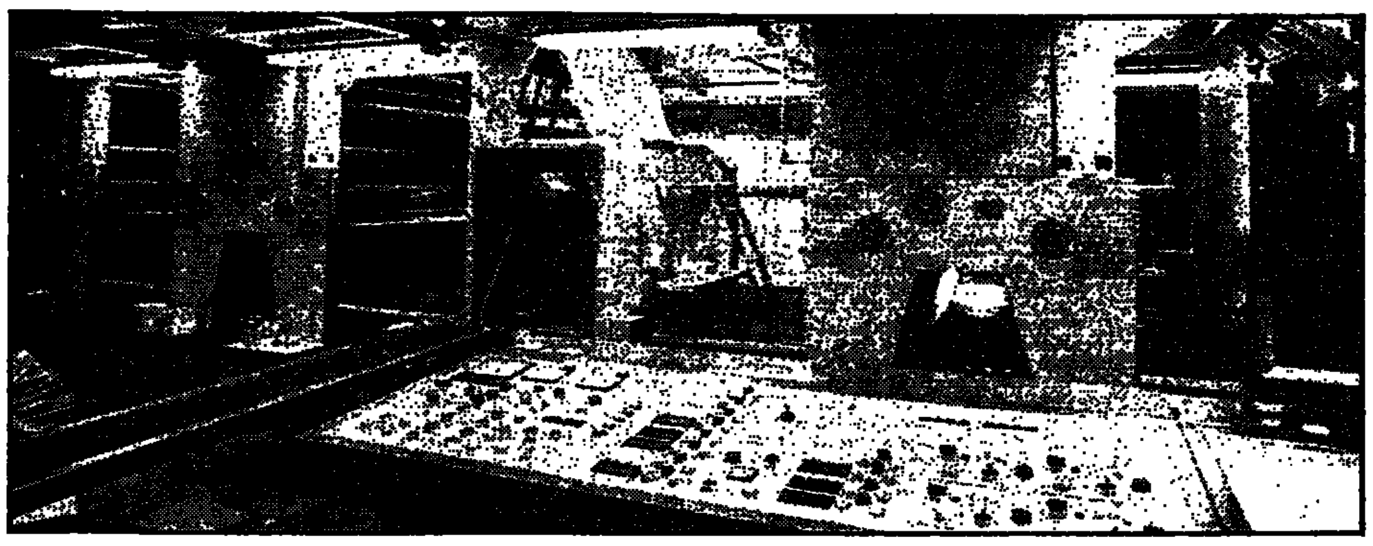
The founder of Today is using such a system to produce his local newspapers in the Warrington area.

Whether desk-top publishing is, however, a practical proposition for other than small local newspapers is still a contentious issue.

Raymond Snoddy



Page faxing in the FT communications centre



West German web offset presses can print 750,000 copies of Today overnight

The machine room

Presses roll more smoothly

AT ITS headquarters in Augsburg, the West German newspaper printing press manufacturer M.A.N. Roland has a fine museum with many examples of early 19th century presses.

The ancient presses in the museum are tiny compared with the computer-controlled colour presses as big as ships being built in the M.A.N. Roland factory across the road but they are still recognisably printing presses.

"Presses are mangles although now they're very sophisticated mangles," says Mr Jack Ferguson, deputy managing director of Mirror Group Newspapers which last year placed one of Europe's largest press orders.

In a deal worth nearly £70m the German company is delivering 21 new presses, each capable of turning out up to 70,000 colour copies an hour, at the rate of one a month to MGN.

The presses, which will be located in as many as seven sites in different parts of the UK, will be used for contract printing as well as the introduction of colour into MGN titles.

The new presses at the Daily Mirror are just a small part of a wave of new investment and modernisation by newspaper publishers, not just in Britain but the rest of Europe.

According to some industry estimates more than £150m worth of newspaper printing press orders have been placed in Western Europe in the past 12 months alone.

This has produced strong growth for leading players such as Rockwell International the US-owned multinational which manufacturers presses in the UK, M.A.N. Roland and Koenig and Bauer, both of West Germany and Wifag of Switzerland.

The result is full order books and companies such as Rockwell are having to struggle to keep delivery times down to two years.

"It is a very buoyant business across Europe," said Mr Stanley Jackson, sales director of Rockwell Graphic Systems, which produced the new presses for the Daily Telegraph in both Manchester and London and is now at work on top-of-the line Goss Headliner presses for the new Financial Times printing plant in London's Docklands.

The strong cycle of new investment in presses, Mr Jackson believes, is being caused by requirements for higher quality printing, the increasing introduction of colour and greater flexibility in the number of jobs presses can tackle.

Delegates to the Comprint International printing conference in Vienna this year were told: "the new generation of presses offers more than just newspaper printing.

Increasingly such presses are required not only to print good colour but also for commercial quality colour for the booming inserts market and for general commercial colour print during down times in newspaper production."

The changes are starting to become self evident to readers in Britain as more and more of them get newspapers with crisp printing, sharp pictures and, for some, ink that doesn't come off on the hands.

By a neat chance the three main newspaper printing technologies, web offset, an enhanced form of letterpress printing called flexographic and anilox a system that can be used with either web offset or letterpress are all being installed in Docklands.

The Telegraph and the Financial Times, and indeed the MGN, chose web offset, a system using a flat photographic plate treated so that part of it absorbs ink and the non-printing part repels it. Web offset, its supporters argue, produces the highest quality printing.

Mr Harry Roche, managing director of The Guardian chose anilox letterpress equipment from Koenig and Bauer because of the letterpress traditions of Fleet Street, the greater complexity of web offset and because, he beleives paper wastage is cut to a minimum.

"You get good copies within 50 copies of starting up," Mr Roche says. The skills of letterpress trained Fleet Street printers was a factor in the mind of Mr Charles Gordon, technical director of Associated, the Daily and Sunday Mail publishers when he chose flexographic. He also believes that flexographic can produce a high consistent standard with dramatic colour matching anything web offset can produce in anything less than optimum conditions.

Only flexo can use water-based inks which dry the moment they hit the paper compared with traditional oil-based inks. Water inks do not smudge or rub off on the hands.

"I think everyone is going to do it right (whatever the system) and it will be a dramatic improvement for readers," Mr Gordon forecast.

Raymond Snoddy

Free newspapers

More players join the fray

FAR FROM the battles of national newspaper proprietors and the big headlines the march of free newspapers—one of the most remarkable phenomena of the last decade in local publishing — has continued unabated.

There are now more than 900 free newspapers in Britain, although about half of them are associated with paid-for titles, and their advertising revenue for the year to March 1987 reached a new record of £335.5m.

The symbolic crossover point when free weeklies earned more in advertising revenue than their paid for weekly rivals came in 1984, according to Advertising Association figures.

Since then the continued growth of free weekly advertising also helped to take the total revenue of the weeklies past that of evening papers for the first time last year.

In the past seven years the percentage annual increases of free newspaper revenue have averaged 35 per cent although until recently it looked as if the rate of climb was dipping and the frees might have been heading for a plateau.

"Just when everyone said we were finished we started picking up again," said Mr Tony Locks, executive director of the Association of Free Newspapers.

In the first quarter of this year free newspapers registered growth rates of more than 40 per cent in both classified and property advertising.

"We are also looking at quite large growth for national display advertising," Mr Locks added.

The success of free newspapers as earners of advertising revenue cannot be disputed. But in the past many disparaging things have been said of the quality of the newspapers themselves and sceptics have asked whether more of them were not put into bins unopened than were actually read.

Such criticisms seem less justified now.

Recently Mr Tony Loynes, editor of UK Press Gazette and Mr Stuart Garner, editor-in-chief of Eastern Counties Newspapers, in choosing the winners of a free newpaper reporter of the year competition, praised the quality of the entrants.

"We were agreeably surprised by the quality of a substantial minority of entries. Personally I would endorse that there are more skilled practitioners with the art of hard-reporting than many would imagine," Mr Loynes said.

There is also growing market research evidence that free newspapers have in general a high readership and reach those readers at a cost per thousand of between a third and a half of competing media.

According to Target Group Index, statistics produced by the British Market Research Bureau 74.6 per cent of all adults read free newspapers and that the readership is high across all age and socio-economic groups.

The comparable paid-for readership, according to the research is 52.3 per cent. Market research also suggests that free newspapers are often the only way of reaching the 48 per cent of people who do not regularly read a weekly paper.

Traditional newspaper publishers, with relatively high fixed costs at first saw free newspapers as an insidious threat but have in recent years learned to cope. A common pattern has been for the traditional publishers to surround their paid-for titles with a defensive ring of frees.

The arrival of the frees encouraged traditional publishers to market their products more effectively and to get their costs down. The threat of extra competition may also have been a factor in enabling proprietors to move more rapidly towards the introduction of new technology.

Mr Dugal Nisbet-Smith, director of the Newspaper Society, which represents publishers of regional and local newspapers agrees that many traditional publishers started frees as defensive mechanisms.

"I think many have evolved well beyond that stage," said Mr Nisbet-Smith and paid-for publishers increasing regard free newspapers as an important provider of profit.

The battle between paid-for and free newspapers is hardly over yet.

"I think the relationship is becoming more comfortable and there is a greater acceptance that free newspapers have become part of the regional press," Mr Nisbet-Smith said.

Britain's first free daily. Roger Rix, managing director of Berrows Newspapers and David Scott, editor, look at first copies of the Daily News, at its launch in Birmingham

The players in the free newspaper industry vary enormously from entrepreneurs who left comfortable desk jobs in Fleet Street to set up their own newspapers to multinational publishers.

One of the biggest players is Reed International which has a total of 110 local newspapers, 77 of them free distribution and shows every intention of increasing that number both by acquisition and setting up new titles.

Sir Keith Skinner, chief executive of Reed Publishing, believes that if the type the market wants is produced "a really good free is just as good as a paid-for newspaper."

Reed has a total circulation of 4m copies per publishing day and turnover is running at £90m. Reeds local newspapers are already profitable and likely to become more so as the general economy grows.

Reed is also deeply involved in one of the most interesting free newspaper experiments—the first, and so far the only free daily in Britain the Daily News in Birmingham.

The paper founded two years ago, in which Reed has a controlling interest claims it has been taking readers from virtually all the national newspapers in Birmingham as well as from the local paid for rival the Post & Mail.

The paper is however still losing money, partly, it is claimed, because of advertising rate-cutting, and no-one so far has followed its trail-blazing route.

"We are now in a situation in Birmingham where we are getting the volume of advertising required at least three days a week. The paper is very successful and we are now able to put pressure on advertisers to get them to pay the rate," Sir Keith added.

He hopes the paper can break even next year. Until it does Reed, and probably most other newspaper publishers, will be cautious about using the Birmingham Daily News as a model for the proliferation of free dailies.

The only exception might be Mr Robert Maxwell who has talked about the possibility of launching free dailies in both Manchester and Glasgow.

Given the collapse of the London Daily News these plans now seem remote. Just in case the Manchester Evening News has launched Manchester Metro News, a weekend free.

Raymond Snoddy

Advertising

Market stays buoyant

EVER SINCE that day in 1955 when a tube of toothpaste starred in the first television commercial to be transmitted in Britain, the newspaper industry has battled with the independent television network for advertising revenue.

Yet at a time when new forms of television—whether beamed down to satellite dishes or belched out from cable stations—seem to emerge by the week, newspapers have proved to be remarkably resilient as an advertising medium.

The press—that is newspapers and magazines—secured £3.1bn in advertising revenue last year, representing 61 per cent of all media expenditure, according to the Advertising Association. Meanwhile national newspapers claimed £844m and regional papers £1.1bn.

Some areas of the newspaper market fared better than others. Among the national titles, the quality papers performed particularly well. Similarly the Sundays tended to fare better than the dailies. Within the local industry, free papers continued to sport healthy growth. Free weeklies claimed 29 per cent of regional newspaper advertising revenue compared with 26 per cent in 1985.

These trends have continued in the first quarter of the present year. Press advertising increased by 9.9 per cent, according to the Advertising Association, well above retail price inflation but slightly below the 10.3 per cent growth in overall advertising expenditure for the quarter.

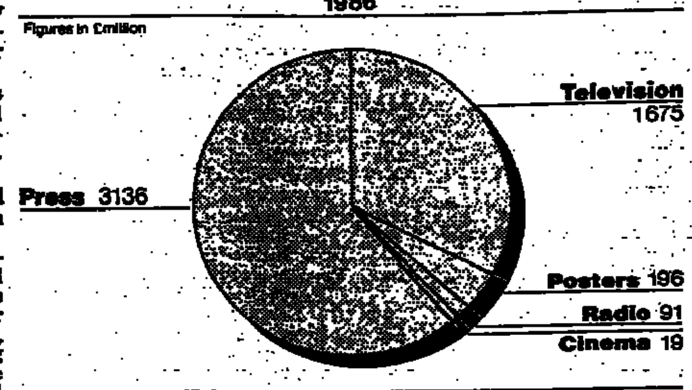
The quality national newspapers rose faster than the populars, with respective growth of 9.4 per cent and 8.2 per cent; while Sunday papers grew faster than the dailies at 11.2 per cent compared with 7.2 per cent. Free papers sported the healthiest growth of all rising by 28.5 per cent.

There are two principal reasons for this buoyancy. The first is the flurry of new national newspaper launches and the continued growth of free local papers. The second is that, for the first time in years, newspapers are offering new facilities to advertisers such as high quality colour reproduction and a faster, more flexible service.

These changes in the structure of the newspaper industry have a common cause: the introduction of new technology. It is technology which has reduced the cost of entry to the newspaper marketplace and

Advertising expenditure

1986



Total £5117 million

Source: Advertising Association

Advertising in 1980s

(percentage)	1981	1982	1983	1984	1985	1986
Paid-for dailies	57	55	53	52	50	49
Paid-for weeklies	27	26	25	24	23	22
Free weeklies	15	18	22	24	26	29

Source: Advertising Association

technology which has enabled new and established titles to offer new facilities to advertisers.

Although the precedent set by some of the new national newspapers—the oft-sold Today and the ill-fated News on Sunday in particular—is far from auspicious: not only has the proliferation of new launches stimulated advertisers' interest in newspapers as a medium, but none of the established titles seem to have suffered unduly.

"The new launches have helped to create the impression that the newspaper industry is livelier and more dynamic," said Mr Alec Kenny, media director of Saatchi & Saatchi the advertising agency. "The threat of competition has encouraged most of the established titles to introduce changes, generally for the better. Moreover there is a new air of confidence in the industry."

The introduction of Today, in February last year, was greeted by an initial round of discounting by its tabloid competitors. But their fears were groundless. Today met with a lackluster response, from readers and advertisers alike, and the popular papers' advertising market has grown healthily.

Meanwhile, Sunday Sport—the paper which promised, and has given, its readers a diet of soft porn and sport—has built up a relatively strong circulation but has not yet made serious approaches to the large advertising agencies.

Perhaps perversely the quality papers have benefited, rather than suffered from the launch of The Independent, which has not only increased circulation within this sector but has helped to stimulate revenue. The qualities have also been buoyed by the growth of specific areas of advertising, finance and electronics in particular.

The emergence of new titles and the ongoing technological changes within the established industry have ushered in real improvements to newspapers as an advertising medium. Colour advertising has long been available in newspapers, but the quality of reproduction has often been poor and the lead-time needed to place the advertisement too long.

New technology enables newspapers to offer high-quality colour advertising with far shorter leadtimes. This facility is already available for papers such as the Independent, Today and the Telegraph titles. Most of the other major publishers are now planning its introducton.

Advertising expenditure

(1986)	£m
National newspapers	844
Regional newspapers	1101
Consumer magazines	274
Business & professional	373
Directories	267
Press production costs	277
TOTAL	3136

Source: Advertising Association

Regional newspapers

Advertising in 1986

	(£m)	%
Regional dailies	544	49
Paid-for weeklies	243	22
Free weeklies	314	29
TOTAL	£1101	

Many media directors, including Mr Kenny, are convinced that the availability of fast, flexible colour advertising will encourage some categories of advertisers to make greater use of newspapers. He cites fashion, retailing, finance, food and drink as examples.

For the long term the combination of new launches and technological innovation should succeed in generating real growth for newspaper advertising.

In a recently published study of the future prospects for advertising expenditure—The media landscape: how to 1995—Saatchi & Saatchi forecasts continued buoyancy for the newspaper advertising market.

On the circulation front, Saatchi is optimistic. It expects that the long-term decline in newspaper sales and readership will come to an end. Stability is the most pessimistic scenario. Saatchi indicates that there could even be some growth in circulation.

The outlook for advertising is a little more modest. Saatchi expects a continued fall in newspapers' share of advertising but that the medium will muster real revenue growth—of around eight per cent a year until 1995.

Alice Rawsthorn

THE ARTS

The Bolshoy Academy/Coliseum

Clement Crisp

The second programme by the Bolshoy School's hopefuls is eager to please, and winning in its ways. In the opening divertissement from *Paquita* we can admire an entirely easy account of variations that have been only slightly adjusted to the abilities of their cast. Everywhere there is lightness in setting out the steps, a sense of reserves of skill that sustain the dance, and in Nadezhda Grachova's performance of the leading role, an innocent and amazing facility to perform bravura choreography. Extravagant extensions, arrowy flights, seem natural and happy with her, and the dance retains a gentle decorum that is irresistible.

The central cluster of divertissements in the evening are what one might expect, from *Spring Waters*—all ecstasy and high lifts—to a Liszt *Consolation* that brought a touching young Bessmertnova look-alike, Yekaterina Bezirgani, as a vision in the secure arms of Kirill Nikitin, who matches her poetry with his own poetic sensitivity.

The last scene of the Moscow version of *La Fille mal gardée* has music by Hertel, Drigo, Delibes, some fascinating (because archaic) choreography, most engaging dancing from five pairs of young soloists, and the revelation that Galina Stepanyenko, the Odette of the first programme, is actually a dazzling soubrette ballerina. She had earlier spun prodigiously fast in a *Don Quixote* duet. As Lise she showed a pretty temperament and no less pretty allegro style, with steps quick, clear, bright, to make much of this charming survival. It is a young people's ballet, and these young people do it well.

Peter Schreier/Goldsmiths' Hall

Andrew Clements

The East German tenor Peter Schreier last gave a recital in London eight years ago. On that occasion he sang *Schöne Mullerin* in the Elizabeth Hall; his return last week, accompanied by Geoffrey Parsons, was also a Schubert programme, given in the Goldsmiths' Hall as part of the City of London Festival. A generous offering that more than made amends for his long absence, it was, quite simply, the finest, most comprehensively accomplished lieder recital it has been my privilege to hear.

In prospect it was a curiously apportioned programme — the massively taxing *Schwanengesang* to be followed by a lighter-weight group of Goethe settings. Yet the intensity that Schreier visited upon the earlier sequence, favouring slow tempi and investing even the less profound Relistab songs with unusual gravity, made the more relaxed second half a necessary counterbalance.

But the core of the evening had been Schreier's view of the six Heine settings that close *Schwanengesang*; each a miracle of emotional compression, every word first weighed and precisely assessed for its expressive content and then fitted exactly into a balanced scheme of colour and phrasing. In "Der Atlas" and "Am Meer" the force of his interpretation pressed at the very boundaries of the form; the songs began to carry a Wagnerian weight of utterance; in "Der Doppelgänger" the thrust of the song seemed bent towards the single word "Schmerzensgewalt" so that the climactic last stanza could be prepared with unflinching directness.

No less care went into the presentation of the Goethe songs; lightness of touch was everything in "Ratlöse Liebe" and "Der Musensohn," simple directness the hall mark of the three Harper's Songs. Yet the precious ability to focus every sinew upon the text emerged again in the first "Wanderers Nachlied;" if one wished to encapsulate the essence of Schreier's art in a single brief effusion, the skill behind the presentation of such a song would serve most eloquently. A marvellous, utterly memorable evening, positively enhanced by the quality of Geoffrey Parsons' accompaniments.

Gruner Competition/Guildhall

Richard Fairman

This was the third time that the Walther Gruner International Lieder Competition has been held. Following on their good fortune in capturing the immensely successful baritone Olaf Bär as the first winner in 1983, the competition organisers have built steadily on their reputation. This year's competition was hosted by the Guildhall School of Music and it is welcome news that institutional funds are at hand to keep the contest going, now that the original bequest has run out.

In Walther Gruner's will, the rules and repertoire for the competition were carefully set out. Above all, the paramount importance of the art of singing *Lieder* is there to act as a clear directive to the jury, even if it rather binds their hands when they have to make a choice—as they did on this occasion—between one acceptable singer with a good grasp of the proper *Lieder* style and another, more brilliant and interesting, whose career will probably lie elsewhere.

Predictably, perhaps, the members of the jury stayed true to Gruner's ideals. The *Lieder* singer won the day and first prize went to Simon Keenlyside, an English baritone who has already staked his claim on the song repertoire with a recital at the Wigmore Hall. He has the languages and the right style, and the very wide contrasts of his programme were well chosen to show off what is not, by nature, an especially gripping platform personality.

Some comparisons, though, are inevitable. And the irony of the result is that, while Keenlyside had to work so hard to generate even a few moments of real interest, his immediate predecessor in the final—the Swedish baritone Thomas Lander—held the attention with no trouble at all and still only received second prize. Given that he also has the more promising voice (better focus, more vibrancy), it probably seems to him that there is no justice in the world.

For the jury, even with their special *Lieder* brief, the decision must have been a difficult one. Of course, it is clear that Lander is heading towards the opera-house. He does not sustain the intimate mood of songs easily and his super confident, toothy grin must have come as quite a shock to Schubert's blithe little "Fischermädchen" after the gentle approaches she gets from most *Lieder* singers. But for me, at least, the sheer spontaneity of his singing would quite easily have tipped the balance.

The third prize went to the German soprano, Ruth Ziesak; and the fourth to an English baritone, Charles Johnston.

Architecture/Gillian Darley

Modernist designs in furniture

Alvar Aalto's furniture design is a perfectly accurate reflection of his development as an architect. From Scandinavian neoclassicism in the early 1920s he leapt to modernism, working back to an entirely personal integration of modernist advances with an intense feeling for natural materials and organic forms.

The process can be clearly seen in the exhibition devoted to the subject, on tour from New York's Museum of Modern Art and showing until September 13 at the 20th Century Exhibition Gallery (formerly the Boilerhouse), in the Victoria and Albert Museum.

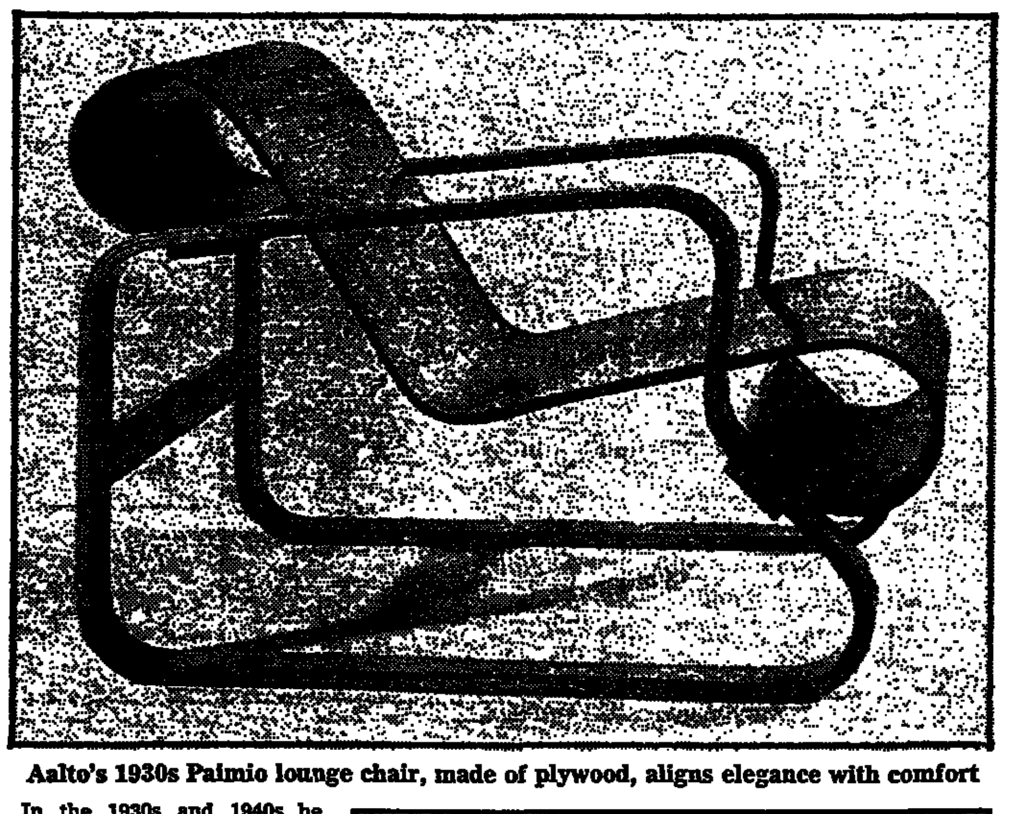
It was Aalto's passion for wood that made him a masterly furniture designer. Perhaps his native Finland gave him an affinity with the material, but he had a curiosity about it and a tenaciously experimental attitude which went far beyond mere familiarity. In his own words: "The result will be good only if rationalisation is exercised in the selection of materials which are most suitable for human use."

He toyed with tubular steel, but found it functional rather than fully satisfactory. So he seized on wood. He moulded it, bent it, laminated it. Crucially, for the influence his furniture was to have, he took inspiration from industrial design, and understood the give and take of the manufacturing process. The source for his apparently revolutionary bent plywood stacking chair turned out to be a railway and tramcar bench made since the late 19th century at an Estonian factory he visited shortly after graduation. Further proof of his love affair with timber is evidenced in the small sculptural reliefs (in fact, merely offcuts from experiments), ever more elaborate attempts to see how wood can be peeled and bent, cut and incised.

The Paimio lounge chair, formed of bent sheets of ply, was known as "the first soft wooden chair." It aligns the elegance of its form with real physical comfort. Aalto was impressed by the fact that wood both absorbed and gave off body heat. Chrome, he felt, was too bright, and unsatisfactory from an acoustic point of view.

His interpretation of the rational is to be found in cantilevered forms, for maximum flexibility, and materials such as webbing (in leather or fabric) to continue that happy combination of movement with tensile support. In quite a different medium, glass, he also followed this approach—reworking forms to new ends.

Many of his acknowledged classics, such as the simple three-legged stacking stool were originally designed for specific jobs. The stool was for the public library at Viipuri, while the earlier Paimio Sanitorium introduced both the lounging chair and more specific, custom-made items such as an examination trolley of ply and steel. Paimio was the first time that Aalto designed the furniture for one of his own buildings.

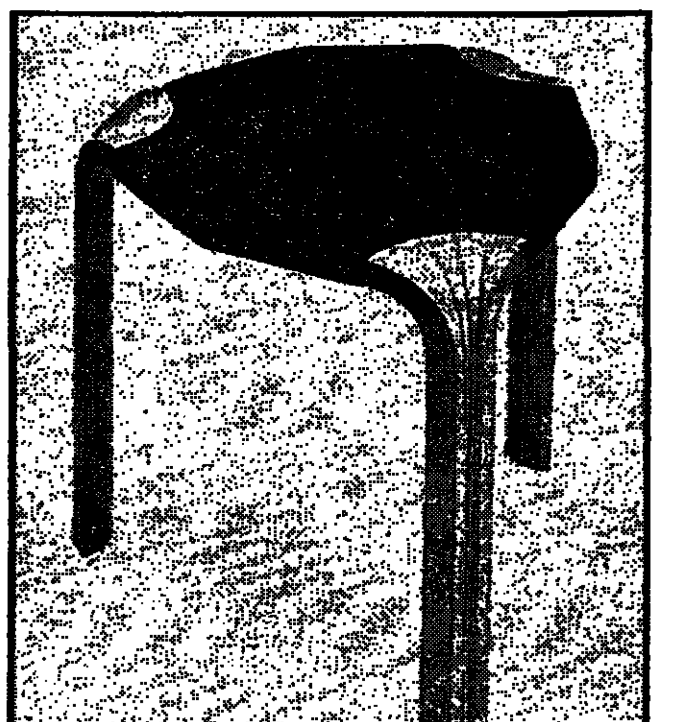


Aalto's 1930s Paimio lounge chair, made of plywood, aligns elegance with comfort

In the 1930s and 1940s he concentrated on a single key element in his furniture; a form of adaptable leg form, first the L-leg and then the Y-leg. From that followed ranges of furniture which could use that adaptability. All the time he was venturing far beyond the craftsman-designer confines, without the loss of quality

In its own way, the furniture system, Nomos, which Foster Associates have designed with Tecno, the Milanese company has some of the same qualities. The range is based upon a basic unit, in this case a work top which can bge raised and lowered, tipped or flattened, and offers the possibility of numerous finishes as well as a wide range of "built-in" accessories, lighting, shelving and services. Here is another variant of single-mindedness. Instead of Aalto's devotion to the potential of wood, Norman Foster's design stretches the possibilities of the office desk as self-sufficient space, precisely engineered and detailed;

The exhibition at Tecno's Bond Street showroom (until August 7) which launches the line in this country, shows the Nomos system in use in offices designed by different architectural practices for a variety of professions. Interestingly, Richard Rogers & Partners were asked to redesign the Lloyds underwriter's desk in a new svelte form incorporating both a suspended filing system and computer terminals set into the work surface.



A 1954 stool made of birch, plywood and leather

The relationship between Foster Associates and Tecno appears to have some of the qualities of that happy one, 60 years ago, between Alvar Aalto and Otto Korhonen, the technical manager of the furniture factory which carried out the production of all his subsequent designs in furniture.

Furnishing the World, the East End Furniture Trade between 1830 and 1980, an exhibition at the Geffrye Museum in Shoreditch, East London, is quite another story. This is a tale of market forces; the customers got what they wanted, be it Henry VIII style lounge suites or "Chippendale" sideboards. The incursions of creative design and novel technology were hardly felt. Yet side by side with this business, which is far from dead even now, London's East End offers workspace to many of the new generation of furniture designers and makers—not yet an industry, but definitely an area to watch.

Zemlinsky/Albert Hall

Dominic Gill

The fuss about Alexander Zemlinsky has always puzzled me. It was presumably Schoenberg who set the cat among the pigeons in 1949, seven years after Zemlinsky's death: and the commotion has not died down since. Shoenberg wrote then: "I owe almost everything I know about composition and its problems to Alexander Zemlinsky. I always thought he was a great composer, and I still think so. Perhaps his time will come sooner than one thinks."

The first claim is unarguable, although in plain terms demonstrably untrue. The second claim was merely overstating the case, with characteristically stubborn perverseness, for a minor composer whom nobody previously had judged, and few have seriously judged since, to be of any greater stature or significance than Frank Bridge or Frederic Mompou.

Schoenberg was never in a position to judge Zemlinsky dispassionately. He married Zemlinsky's sister, and was an intimate friend and colleague from the 1890s until 1942. Exactly why, apart from the ties of marriage and friendship, he *should have* been moved to such generously exaggerated praise is a minor mystery. And I still wait to hear the Zemlinsky work which justifies that praise, not just fully, but even only in part.

Zemlinsky's tone-poem *Die Seejungfrau*, given its first performance in Britain by the BBC Symphony Orchestra under Christoph von Dohnanyi last night, actually received its premiere in 1905 in the same concert as Schoenberg's *Pelleas*. Zemlinsky subsequentty withdrew the score — and one can see why.

To have heard it beside *Pelleas* must have been a mortifying experience indeed: for *Die Seejungfrau* is "sub" almost everything, and notably sub-Schoenberg, with particular reference to *Pelleas* and *Verklarte Nacht*. It is also distinctly sub-Chaikovsky, sub-Brahms, sub-Strauss: echoes in it are legion, but truly original gestures—as distinct from those gestures and textures which are evidently, but merely, the product of a genuinely accomplished and proficient musical sensibility—are almost entirely absent. It is not great music. Beside the best of the less-than-great, it is not even very good music. Why then, once again, the fuss?

Arts Guide

July 24-30

Music

LONDON

Chamber Orchestra of London conducted by Phillip Simms with John Bradbury, violin and Yitkin Seow, piano. Handel, Mozart and Vivaldi. Barbican Hall (Thur). (638 8891).

PARIS

Sardinia's religious and traditional music, Maria Carta singing, Sergio Vartolo, organ and singing (mon 8.30pm) Saint-Severin Church.

Angela Hewitt, piano: One Hour with Roussel (Tue, 7pm) Auditorium des Halles, Porte Sainte-Eustache.

Chamber Orchestra from Czechoslovakia conducted by Otokar Stejskal with the Nielsen Quintet: Mozart (Thur 8.30pm) Auditorium des Halles.

All the above are part of the Paris Festival Estival (4804 9801).

NETHERLANDS

Amsterdam, Oude Kerk (Oude Kerksplein). Organ recital by Jan, Peter and Wim Zwart (Wed).

Amsterdam, Nieuwe Kerk (Dam Square). Organ recital by Gustav Leonhardt (Thur).

NEW YORK

Mostly Mozart Festival (Avery Fisher Hall): Music on Original Instruments. Christopher Hogwood conducting, Steven Lubin fortepiano, Stanley Ritchie violin. Mozart, Beethoven (Mon); Mostly Mozart Festival Orchestra. Leopold Hager conducting, Richard Stoltzman clarinet, Paul Gallo basset horn, Janos Starker 'cello. Mendelssohn, Weber, Haydn, Mozart (Tue, Wed); New York Chamber Soloists. All-Bach harpsichord programme (Thur). Lincoln Center (874 2424).

Jazz in July Festival (Kaufmann Hall): Margaret Whiting, Dick Hyman and Max Kaminsky among others pay tribute to the Eddie Condon Club (Tue); piano recitals by Marian McPartland, Roger Kellaway and Dick Hyman (Wed); Joe Williams and the Count Basie Orchestra (Thur). 1395 Lexington Av at 92nd St. (996 1100).

WASHINGTON

Wolf Trap: Fairfax Symphony conducted by William Hudson, Marvin Hamlisch piano. Mixed programme (Tue). Vienna, Va. (703 255 1868).

CHICAGO

Ravinia Festival: The Beaux Arts Trio. Beethoven, Schumann, Brahms (Mon); Ensemble of Authentic Instruments. Christopher Hogwood conducting. Steven Lubin fortepiano. Mozart, Beethoven (Tue); Joe Williams and the Count Basie Orchestra (Wed); Chicago Symphony. David Zinman conducting. Jeffrey Kahane piano. Weber, Chopin, Schumann (Thur). Highland Park (728 4642).

TOKYO

Setsuko Seidhofer, piano. Haydn, Mozart, Beethoven, Chopin. Mullion Concert Hall (Thur) (501 5638).

Traditional Japanese Music: Shamisen, hand drum and flute recital by the Shinju Kai group in a concert version of well-known pieces from Kabuki. Shoken Kaikan Hall, near Kayabacho. (Thur) (551 0329).

Opera and Ballet

NEW YORK

New York City Opera: A week of performances of Stephen Sondheim's Sweeney Todd begin, conducted by Paul Gemignani in Harold Prince's production with Joyce Castle and Timothy Nolen; also Faust, La Rondine and Tosca, with Elizabeth Holleque in the title role conducted by Alessandro Siciliani in Frank Corso's production. Lincoln Center (870 5570).

New York Grand Opera (Central Park): Free performance of the first New York staging of Verdi's Il Corsaro at the 72nd Street Bandshell. (860 1335 for raindates).

Jacob's Pillow Dance Festival: Summerlong work and performance schedule in the Berkshires features recitals this week of the Paul Taylor Dance Company (Tue-Thur). Becket) MA (413) 243 0745.

WASHINGTON

Bolshoi Ballet (Opera House): Performances of The Golden Age continue, along with the first act of Romeo & Juliet and the second act of Spartacus. Kennedy Center (254 3770).

LONDON

Coliseum: Bolshoi Ballet Academy in mixed programmes. (836 3161).

Sadler's Wells: Merce Cunningham season continues. (278 8916).

Royal Festival Hall: London Festival Ballet begins a season of popular ballets on July 28 starting with Coppelia in which *Rudolf Nureyev* is promised as Frantz (928 3191).

Donna Giovanni/Shaw

Michael Coveney

Mozart and Da Ponte's *Don Giovanni* has been given a rare going over by the Compania Divas of Mexico, visiting LIFT before moving on next week to the Edinburgh Festival fringe. It is arranged for five actresses, one actor (playing Don Ottavio) and a piano. The outline of the two acts is well observed and most of the score spiritedly delivered by performers who sing, rather than singers who act a bit.

The Don himself is shared among the actresses who brilliantly fulfil two functions: the denial of their conqueror's tragic personality, and the radical reassessment of their own ambiguous sexual humiliation. On the first count, Leporello (the bulkily ornate Regina Orozco) spares us the catalogue of international conquests; on the second, the stage is invaded by a succession of wittily prepared tableaux relating mock submissiveness to mannerist painting.

Thus, Elvira is stuck with arrows and pinioned to a phallic pole like Saint Sebastian; an exposed nipple is laconically tweaked ("La ci darem la mano") that portrait of the powered torso-baring sisters in the Louvre; Donna Anna reclines naked and provocative on a day bed like Manet's Olympia; and Zerlina disports herself, and a convenient shell, as a less vacant, more drenched, equivalent of Botticelli's Venus ("Toccami quà!").

These inventive inversions are pleasing and highly amusing, the overall approach summarised in the brilliant second-act design of a large grey grotto fashioned from a death mask of Bernini's statue of Saint Theresa. The folds of the veil become the gates of hell: Francis Laboriel, a stunning black actress, rises from the jaws of this grey stone Madonna as the spirit of both louche excess and avenging righteousness—Josephine Baker meets the Commendatore.

Ingenious staging, sometimes simple, usually pictorial, is devised for the fights, the chases, the feasts, and the great second-act sextet grows effortlessly out of some diagonal lighting and clever business, immediately followed by "Il mio tesoro intanto," Don Ottavio pathetically fondling a rag doll.

In Mexico, the production by Jesusa Rodriguez (also playing Elvira) must be dynamite. But we are not so blase here, I hope, that we can fail to recognise the very great achievement of this remarkable reclamation: an operatic masterpiece has been done full justice and relaunched as a subversive salvo in resonant contemporary terms. It was ever thus, I imagine, before they invented Glyndebourne.

Merce Cunningham/Sadler's Wells

Clement Crisp

The diversity of movement, the variety of emotional and physical incident in Merce Cunningham's second programme, which was seen on Friday night, are cause for wonder. The dancers are deployed in Klee-like journeyings, choreographic line being taken for a dance, then overlaid with further dashes and clots of activity, while the fascinated eye follows the procedures with delight.

As he gets older, Cunningham the creator seems to become more refined in means, sparer in form, able to extract the maximum dynamic juice from a simple idea, and never less than intriguing. There was a marked differenc between *Duets*, dating from 1980, which opened the evening with its over-lapping and "open" double-work, and the extraordinary *Shards*, made this year, which succeeded it.

Duets is uncomplicated, a contemplation of ways in which couples can dance together; *Shards* is a dark and heavy piece, its cast permanently on stage, seeming rooted to the spot in a sequence of freeze-frames from some secret and unimaginable drama. Against an attractive, scribbly backdrap by William Anastasi, the lead-coloured bodies stand, lie, crouch where they fall, semaphore and suddenly burst into little explosions of movement, while David Tudor's score echoes around us like the work of an electronic Pétomane.

Shards is a revelatory work. You see—almost in slow motion, so deliberate and isolated is the dance's articulation — much of Cunningham's creative process, as ideas are imitated by one dancer after another, or are stored in their bodies to be later recalled. The effect is constantly engrossing: if stones were to dance, it would be like this, with solid purpose and moments of brooding inanition broken by mad jumps and turns. And then the choreography suddenly lopes off-stage and the curtain falls, and we are released from its considerable spell. I thought *Shards* masterly, and superbly danced.

Another new piece from this year, *Fabrications*, ends the programme on a busier note. It lacks *Shards*' unity of tone, and seems disjointed, though signature elements — the circling of hands and bodies—have a thematic importance. There are leaping displays by the men; a couple look like lovers isolated from the world, contemplating the bustle around them; the girls wear unforgiveable dresses; Cunningham himself crosses through the dance, flickering gesture at us, his manner somewhere between King Lear and a water-diviner. The intellectual and inspirational tensions of the piece waver, the movement appearing to grip the attention and then switching off, and at a first viewing I found it over-extended. Its rewards, though, as always with Cunningham, are of unforgettable images and sequences that permanently enrich the imagination.

Moscow Film Festival

Ronald Holloway

Film history, it appears, was made almost daily in *Dom Kino* throughout the momentous Moscow International Film Festival this month. A press conference in the roomy quarters of the Union of Soviet Filmmakers was the highlight of the event: Alexander Askoldov's *Commissar* (1967) came off the shelf to receive its belated première in the White Salle, the last of the shelved films to be freed by the Conflict Commission under Elem Klimov (the Soviet Union's First Secretary) and Andrei Plakhov (the commission's chairman).

When one reflects on the exigencies of the "thaw" in the Khrushchev era (1956-65), the shift back to the old formulas under Brezhnev's new leadership (solidified at the 23rd Party Congress in March-April 1966), and the "Trial of the Four Writers" in January 1968, then I well appreciated the insights offered at this three-hour press conference—with the director Askoldov, his cameraman and actors —on the troubled late 1960s when many an artist either had to comply with the revised tenets of Socialist Realism or be doomed to anonymity.

Indeed, the 15th Moscow Festival was a visible relief for many from the doldrums of years past. Elem Klimov, together with the new Film Minister Alexander Kamshalov, cleared the ground and opened the archives. Buyers and critics could ask to see what they wished—and the requests were usually granted.

Viewing *Commissar* today, 17 years after its making, one can understand the reasons for shelving this particular film: its daring experimental style contradicts the tenets of Socialist Realism, the Jewish Question is raised in one sequence relating to Auschwitz or another concentration camp, and it is to the core the work of an intellectual. Oddly enough, all of these elements assure the film's longevity.

The commissar in this tale of the Revolution is a pregnant female. During a flashback while she is giving birth, we see that her beloved was killed in a charge against the Whites —a scene of pure fantasy, beautifully photographed (V. Ginzburg) in contrasting black-and-white images. For the birth she has taken refuge with a Jewish family, whose father (Rolan Bykov) is a most sympathetic individual with a zest for life and an innate instinct for caring for his wife and a brood of small children.

Besides *Commissar*, several other shelved films could be viewed at *Dom Kino* and the Film Market: Tengis Abuladze's *Repentance* (1984), the Special Jury Prize at Cannes; Kyra Muratova's *Brief Encounters* (1968) and *The Long Farewell* (both purchased by the BBC); Alexander Alov and Vladimir Naumov's *A Bad Joke* (1964), based on Dostovevsky; Andrei Milkhalkov-Konchalovsky's *Asya's Happiness* (1966); Gennadi Poloka's *Intervention* (1967); and the full version of Andrei Tarkovsky's *Andrei Rublev* (1966), to which an extra hour has been added.

The official number of shelved films dating back to the early 1960s is about 160, according to one reliable source. They include documentaries and short films, while the question of several other cut films (eg. *Andrei Rublev*) requiring restoration by petitioning directors projects the figure into the realm of the unknown. One film-maker quipped: "The count still isn't in from all the republics!"

In the light of this circumstance, the competition entries in the Main Programme, the Festival of Shorts and Documentaries, and the Children's Film Festival paled in comparative importance. Indeed, the show in the Hotel Rossia auditorium—25 films in competition, another two dozen in the "Panorama" Information Section — was conspicuous mostly for the presence of Federico Fellini's *Interview* (Italy) amid a rather drab field of contenders. The awarding of the Grand Prix to this lightweight Fellini signalled at the same time the release in the Soviet Union of the Italian director's previous Grand Prix winner in 1963.

Fellini's remarks upon receiving his prize to a standing ovation: "It's nice to be experiencing *glasnost* for the second time around!"

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
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Monday July 27 1987

Mr Shultz's sad lesson

THE TALE that Mr George Shultz, the US Secretary of State, told to Congress about the workings of the Reagan Administration was, in its way, even more chilling and disturbing than anything which had preceded it in the long Irangate investigation. Yet it does provide a basis, along with the report of the Tower Commission earlier this year, from which some concrete and general lessons can reasonably be drawn.

The most important concerns the accountability and the size of the National Security Council and, by extension, of the whole additional layer of government which now exists in the White House itself. As Mr Shultz outlined it, the NSC had, under a lax president, grown in influence to the point where it could, at will, effectively interpose itself between the chief executive and his Cabinet, not to mention the Congress; and, again at will, simply cut individual Cabinet officers completely out of the decision making process in their designated areas of competence. Moreover the NSC staff, defining its accountability only to the President, apparently considered itself above the law, at least insofar as congressional proscriptions on aid to the Contras were concerned.

Blind loyalty

A president needs in-house advice; since he has primary responsibility for the conduct of foreign policy he needs a national security adviser and, as the Tower Commission properly recommended, that official ought to be a personal choice, not subject to ratification by or answerable to Congress. But the whole purpose of a White House staff is not simply to give advice and certainly not unilaterally to implement policy. It should also be the eyes and ears of the chief executive, drawing in its work on the widest possible sources of information, including other departments of government which are, after all, the repositories of much policy-making experience. Yet the sad lesson of recent history is that the man in the Oval Office has ended up not necessarily better informed, but certainly more isolated from the real world outside.

Mr Shultz was at his most poignant, if not necessarily accurate, when he contrasted the direct, personal style of Mrs Thatcher with the institutional morass that is now Washington. But he might have remembered that he, too, as a senior Cabinet officer, has the duty to fight for what he believes to be right and to do so not only behind closed doors. Unlike the UK, the US does not have the tradition of collective Cabinet responsibility. Thus, a distinguished predecessor, Mr Cyrus Vance, did resign after the event over the abortive raid to rescue the US hostages in Iran in 1980, conducted against his advice. Mr Shultz submitted his resignation three times and, on the basis of what he said last week, ought to have made at least one of them stick. Blind loyalty to a president, however noble in itself, is simply not enough; if it were, the executive branch might just as well be handed over to the likes of Admiral Poindexter and Col North, and their dubious collection of freelance and very unaccountable operatives.

Rare exception

It would help, too, if the NSC staff, and other parts of the White House apparatus, were greatly reduced in size, so that much of the substantive policy analysis devolves back to where it should have been in the first place—in government departments. It is also worth bearing in mind that it is the rare exception (General Douglas Macarthur in Japan) rather than the rule that military men understand the subtleties of politics and international affairs, as Admiral Poindexter's testimony so painfully demonstrated. After all, the Joint Chiefs of Staff, apparently left in the dark as much as Mr Shultz, are more than competent to advise their Commander-in-Chief.

The very special, private relationship between Mr William Casey and the President and the late CIA director's unique conception of his own role does not, per se, justify further restrictions on the US intelligence service. But it does demonstrate the folly of mindlessly dissembling to the Congress or treating the legislature with contempt. The consequences of being found out must be the assertion of congressional influence, with all the imponderables this can bring. The governance of the US is a partnership, not an inherently adversarial relationship, and those who fail to recognise this can gravely damage the body politic.

Scotland feels lonely

THERE was room for only one Scottish Question Time before parliament adjourned for its summer recess last week, and no doubt the Government was glad to get through it without undue embarrassment. For, in one way at least, the general election in June significantly changed the composition of the House of Commons. Out of a total of 72 Scottish seats, 50 are held by Labour. The Tory share fell from 21 to 10, barely enough for the Conservatives to supply a select committee as well as provide Scottish ministers.

It is true, as those who support proportional representation (not usually Tories) would say, that the figures can be looked at another way round. The Conservative share of the Scottish vote fell by only four points to 24 per cent. Scotland, because of the Nationalists, has a four party system, and so the Tory performance was not as bad as it looked. Besides, Scotland is only one part of the United Kingdom; Labour cannot expect to dominate Westminster merely because it did well north of the border.

It is also true that under Mrs Thatcher's rule Scotland has fared none too badly. GDP per head is third in Britain after the south-east and East Anglia. More has been done—and done better—than in other parts of the UK to cope with urban decay. There has been *some progress* in creating a high technology base to replace the old industries. Even unemployment has started to fall, although the most marked improvement came after the election.

Over-represented

There may have been a decline as well in the cruder forms of Scottish chauvinism. When the Midland Bank decided to sell its Clydesdale subsidiary to National Australia Bank earlier this month, the reaction was that it was a challenge rather than an insult.

Nevertheless, the fact remains that the Government remains unpopular north of the border and can scarcely go on pretending that it will be able to conduct business as usual. Mr Malcolm Rifkind, the Scottish Secretary, almost certainly knows this and will spend the summer brooding about it.

As always when the Scots show their dissatisfaction with Westminster, thoughts turn to devolution. Previous attempts to move in that direction, however, have not been rewarding and it is far from clear that the bulk of the Scots, including the Labour Party, really wants it. There is also the point that any devolution of power to Scotland would lead to demands for the Scots to have less of a say in Westminster. They are over-represented in parliament. No mutually satisfactory form of devolution has yet been devised.

Greater efforts

In the end it comes down to a question of self-confidence. The Scots on the whole feel that the British Government favours the south east of England. A Scot who moves south of the border may well become a Tory voter overnight, but a Scot who stays at home regards the south as alien territory.

This nationalism with a small "n" coupled with a sense of resentment is something that the British Government is going to have to live with. But it could also make greater efforts to understand it.

Scotland, after all, is not nearly as remote as it used to be. Communications are good and the opportunities to develop specialised forms of tourism, for instance, as well as high-tech, are still under-exploited. The Americans appreciate that, even if the mass of the English do not. A move from the south to the north makes sense in all sorts of ways: for relocating business or as an attractive place to live where property prices are not out of hand. Scotland, in short, should be one of the jewels in the crown. One way of demonstrating that would be for ministers, and others, from the south to spend more time there.

THIRD WORLD DEBT

When forgiveness could pay off

By Michael Prowse

THERE HAS rarely been more confusion about the severity of the Third World debt crisis. Professor Martin Feldstein, former head of President Reagan's council of economic advisers, argues that the crisis is over. He takes heart from the round of increased loan loss provisions announced by major US and UK banks and believes that the case-by-case "muddling through" strategy, pursued since 1982, is working.

Others take the opposite view. Dr Henry Kaufman of Salomon Brothers, for example, contends that debt forgiveness is an urgent necessity. In a recent circular, he calls on First World governments to "face reality by accepting the mistakes of the past." This view is shared by several leading US academics, such as Professor Jeffrey Sachs at Harvard, and by many politicians on Capitol Hill, including Democratic Senator Bill Bradley. Many senior figures in financial markets and in the multilateral institutions are also privately sympathetic to the concept of debt relief.

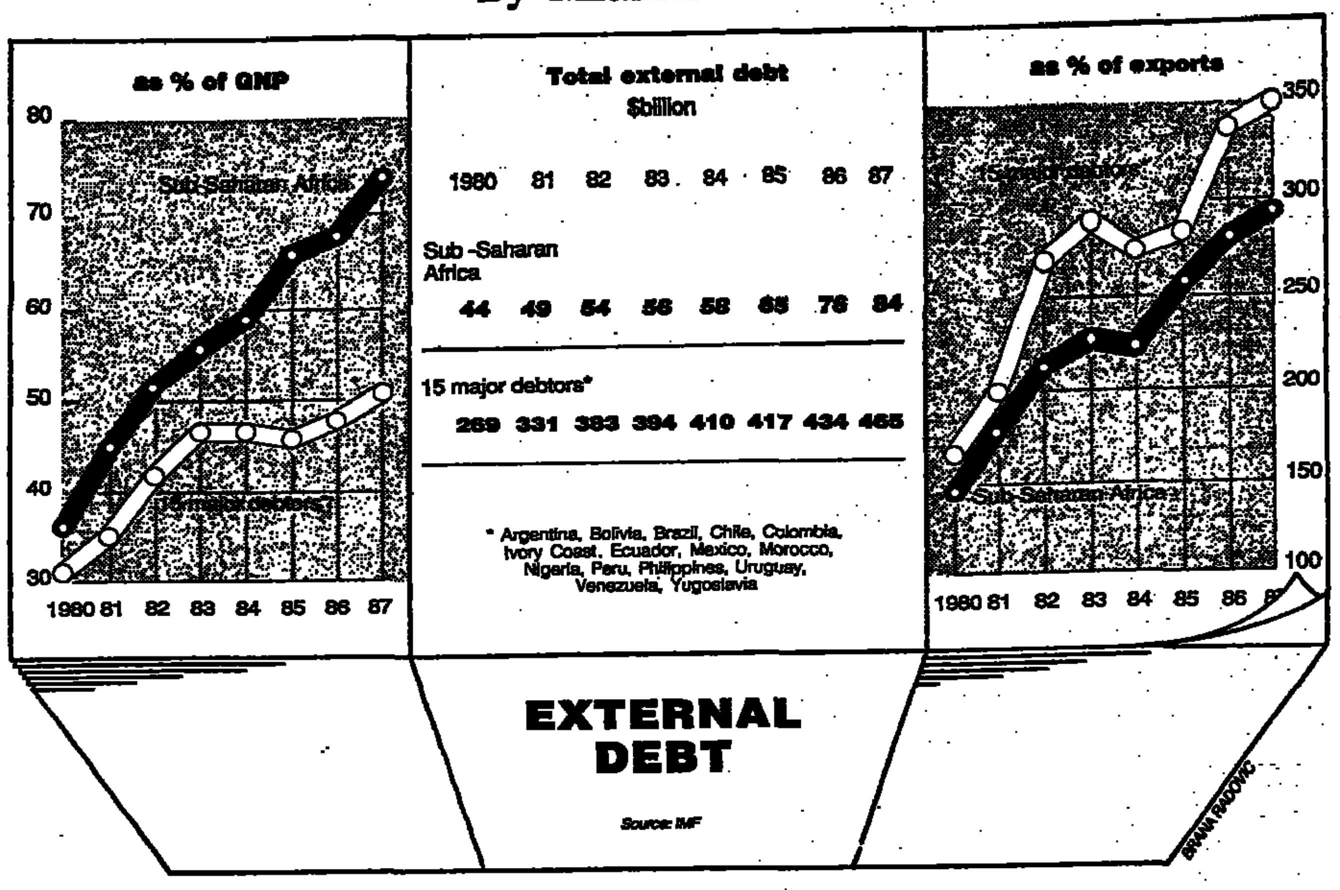
So who is right? How serious is the debt crisis and how strong are the arguments for new policies?

Much depends on whether you look at debt through the eyes of creditors or debtors. From the standpoint of lenders in the industrialised world, enormous progress has been made since 1982. What Western capitalists most feared was that a series of defaults would result in a collapse of the international banking system.

Successive rounds of rescheduling have virtually eliminated this risk. Primary capital as a proportion of problem loans is sharply up; problem loans as a proportion of total bank assets are sharply down. It is the improvement in these two fundamental ratios that has made possible the headline-catching (but partly cosmetic) rise in loan loss reserves. By the end of this year, partly as a result of Citibank's aggressive move in May, the great majority of the world's major banks will have provided for at least 25 per cent of their dubious Third World loans. Many European banks have set aside proportionately much larger reserves.

Unlike the creditors, most of the Third World debtors (with the exception of a few strong performers in East Asia) have experienced little or no improvement in their fortunes in the past five years. The arithmetic of compound interest has meant that their total debt has risen significantly, even though new lending has dried up. At the same time, export earnings have been hit by exceptionally weak commodity prices. As a result, the ratios of debt to gross national product (GNP) and debt to exports have steadily deteriorated.

Taking the 15 most heavily indebted countries, International Monetary Fund (IMF) figures show total debt rising from \$383bn (£239bn) in 1982 to \$435bn in 1986. It is true that actual debt service payments (mostly interest) have declined slightly as a ratio of exports—from 49 per cent to 44 per cent—but this only reflects the procrastination implicit in the rescheduling process. The IMF calculates that the "true" debt service burden on problem debtors (ie actual plus rescheduled debt service) has risen from around 43 per cent to more than 60 per cent of exports.



A heavy price has been paid in the struggle to service the debts. Per capita growth has averaged minus 1.6 per cent during the 1980s in the most highly indebted countries. The resources available for domestic use, of course, have been still more constrained because of the need to generate trade surpluses to service the debts. Capital spending, and hence potential for growth, has been particularly hard hit, with per capita investment falling by about 30 per cent in real terms. Investment is now estimated to be barely sufficient to keep the existing capital stock from falling.

Things may improve, as Prof Feldstein and other optimists predict. The World Bank, in the 1987 Development Report, forecasts improving debt ratios and higher living standards for the Third World under both its slow and fast growth scenarios. But it is worth remembering that the multilateral institutions and Group of Five governments have been sadly optimistic many times before.

In its 1984 World Economic Outlook, for example, the IMF confidently predicted that by 1987 the ratio of debt to exports in all non-oil developing countries would have fallen to 132 per cent, from 145 per cent in 1984. This group includes some dynamically successful countries; all the same, the figure for 1987 is now given as 176 per cent (and the 1984 outturn has been revised up to 160 per cent). Needless to say, the IMF expects the troublesome ratio to improve next year.

The debt crisis has always been easy to solve on paper. Make the right assumptions about future world growth, commodity prices and so forth and, hey presto, the crisis evaporates. Slightly vary these assumptions and it becomes obvious that the debt strategy outlined by the US Treasury Secretary, Mr James Baker, in Seoul in 1985, will not work.

The idea was that commercial banks (in tandem with the official institutions) would increase their exposure in return for a shift to more market oriented (and thus supposedly growth enhancing) policies in debtor countries. Nearly two years later, it is still improbable that private sector agents in the industrialised world can be persuaded to provide finance on terms that permit sustained rapid growth in the developing world.

Foreign direct investment offers some opportunities, but these are easily exaggerated. It was running at an annual rate of only \$12bn even in the late 1970s, when much higher returns on capital investment in the Third World were (erroneously) expected than today.

The reality is that developing countries can absorb only relatively small amounts of new equity. Even securities firms scenting new business concede that an expansion of Third World stock markets on the scale required to make a dent in the debt mountain is not feasible.

DEVALUED DEBT	
Secondary market value of sovereign debt at July 13	
Argentina	47-48.5%
Bolivia	10-12%
Brazil	57-59%
Mexico	54-55%
Peru	11-16%
Ivory Coast	60-62%
Morocco	65-67%
Senegal	61-63%

Source: Salomon Brothers

Certainly, the faith now placed in devices such as debt equity swaps and other exotica on the banks' much-vaunted "menu" of financing options seems misplaced. A debt-equity swap is simply a deal converting debt into foreign equity in a domestic company, and at a preferential exchange rate. Such deals "may distort trade and waste foreign exchange and, in the extreme, result in new capital flight," according to a recent report from the Group of Thirty, an international study group.

Moreover, much of the investment financed at preferential rates through swaps would occur anyway. It is odd that many free marketeers, who would normally oppose artificial devices such as two-tier exchange rates, are so supportive of swaps. Perhaps it is a good thing, as the Group of Thirty argues, that scope is probably limited for expansion of the swaps market beyond the \$5bn volume registered in 1986.

More important, a resumption of new commercial lending on the scale required seems highly unlikely in the wake of the greatly increased loan loss provisions. It is rather difficult to tell shareholders, on the one hand, that you do not think old loans will be fully repaid and, on the other, that you intend to increase your exposure. The argument that new loans will make the old ones safer becomes a bit dubious when provisions have reached the 25-30 per cent level.

This, at any rate, appears to be the verdict of the secondary market in sovereign debt. The discounts at which the debt is trading have widened markedly since the round of higher provisions.

Some optimists, however, argue that banks will just be illogical. They point out that \$2bn of new money for Argentina has been raised since the Citicorp move in May and that the big banks are likely to stump up more cash for Brazil provided it adheres to an economic plan blessed by the IMF. The point of the higher provisions was to facilitate the restructuring of old debt; the move will not inhibit future loan decisions.

Suppose the optimists are right. Suppose the banks do agree to tide over Brazil, just as they previously kept Mexico afloat. This would not alter the fundamental argument for some form of debt relief—be it cancellation of some of the principal loans, or sizeable interest rate subsidies. When countries seem set to experience acute debt servicing difficulties indefinitely, it makes more sense to reduce that burden through forgiveness than to increase it by making new loans (which will only have to be rescheduled later).

There are both ethical and pragmatic arguments in favour of debt relief. It is hard to see why the Third World should assume all responsibility for the economic mistakes of the 1970s, a decade which saw the breakdown of exchange rate stability, two violent oil shocks and an extraordinary — and imprudent — shift from long-term official to short-term commercial financing of development. The debtors were sold too many loans, but neither they nor anybody else foresaw the subsequent dramatic rise in real interest rates or the almost unprecedented fall in commodity prices. It is reasonable to argue that the debtors' contracts should be rewritten to reflect these realities.

Pragmatic considerations point the same way. Much of the apparent cost of debt relief is illusory. A reduced burden on the debtors would allow them to grow faster. The industrialised world would be a prime beneficiary: what is not spent on debt service would be spent on imports. Debt forgiveness involves less a transfer from the First to the Third World than a transfer *within* the First World—from the financial to the industrial sector.

Advocates of debt forgiveness are well aware that the proposal stirs up strong emotions. Ironically, many of the larger debtors—let alone their creditors—remain unwilling to accept that they need or deserve it. They crave the acceptance and respect of advanced countries, and fear that pushing for debt relief would postpone for decades their elevation to the High Table of nations. How could Brazil, for example, claim to be on a par with Spain or Australia if it accepted debt cancellation?

The allocation of relief also presents problems: debtors which have made strong efforts to adjust should not be penalised relative to those that have not. The important point, however, is that a failure to concede any relief is likely to present much deeper problems in due course, given the present poor outlook for world economic growth and the still very modest recovery in the prices of some commodities.

An early change in official policy is improbable, but radicals can console themselves by reflecting that the intellectual climate is gradually shifting in their direction. After all, even somebody as fiscally conservative as Mr Nigel Lawson, the UK Chancellor, is now urging debt relief in sub-Saharan Africa. Unlike the IMF and some of his Group of Five colleagues, Mr Lawson has abandoned the principle that all debtors must honour past commitment, come what may.

The position of middle income Latin American debtors, of course, is not directly comparable with that of Zambia or Zaire. But they too are in deep trouble and, if restored to health, they offer far bigger export markets to the industrialised economies.

Men and Matters

RIO DE JANEIRO, JULY 26

Pele's own political goal

Even the world's greatest footballer can sometimes put his boot in his mouth. Edson Arantes do Nascimento—Pele, that is—caused a furore recently on an official visit to Spain.

Named by President Jose Sarney as Brazil's official ambassador for tourism, Pele was driven around Madrid in air-conditioned limousines to spell out the under-sung joys of his country's beaches and historic sites to everyone who would listen, including King Juan Carlos himself.

As usual, by his presence alone Pele earned valuable column inches. This time, however, he surpassed himself. In a press conference widely reported both in Spain and back home, the footballer talked extensively and critically about Brazil's problems and its fragile, inflation-wracked economy.

In addition, he singled out the President's pet capital project — a 1,600 kilometre US\$2.4bn (£1.5bn) railway — as an unnecessary extravagance redolent of the bad old days of corruption.

The storm that ensued almost knocked the idol off his plinth, as he weakly explained that he thought he was speaking off-the-record and to the Brazilian press only.

But if diplomacy is not the footballer's strongest suit, he still has other ambitions. Earlier this year, he announced that he was seriously considering standing for the Presidency—"If the Brazilian people want me."

Quick returns

Old Brazilian politicians never die, they do not even fade away—even though some of the newer ones might wish they did.

Ex-President Joao Figueireido, who left office with a sigh of relief in 1985, has recently been making public his acerbic views on current political difficulties.

Figueireido, famous for his statement that he preferred the smell of horses to the smell of The People, recently told an interviewer: "My government was ruinous. This one is worse."

A political double act now also enjoying huge revived popularity is that of the two ex-planning ministers, the portly Deputy Delfim Neto and the stringier Senator Roberto Campos. Together, they have run rings round their left-wing opponents on the crucial economic committees of the Constitutional Assembly in their efforts to persuade more nationalistic Brazilians that the market has a role to play in the economy.

Campos is favourably impressed by the country's new economic team which he says represents a shift "from Messianic folly to mere sophisticated error."

He also welcomes Finance Minister Luiz Carlos Bresser Pereira's public acknowledgement of the February debt moratorium as a problem for the Government as "an immense cognitative advance" on the days of his predeceesor, Dilson Funaro.

But he holds out little hope for the new constitution

"Call that a nasty bank manager's letter? You should see the one the Minister of Finance got from the British banks."

On call

At least some of Rio's thousands of street urchins must be missing inflation, currently suppressed under Brazil's latest price freeze.

Enterprising youths have long scraped a living out of selling the telephone "fichas" needed for public call boxes, but this year has been a bonanza.

As inflation leapt, so did phone charges—86 per cent in April and 30 per cent twice in May and June—surging well ahead of the price index. For those diminutive ficha dealers holding stock, huge tin fortunes could be made. The only problem was persuading passers-by to make the calls.

Export talent

With the late-lamented British cinema invasion of Holywood now repelled, the next Oscar awards may ring to the cry—"The Brazillians are coming."

After the international success of Hector Babenco's The Kiss of The Spider Woman, the Argentine-born, but Brazilian naturalised, film-maker has graduated to Jack Nicholson-Meryl Streep sized budgets with his new movie, Ironweed, now being shot in upstate New York.

Another up-and-comer is Arnaldo Jabor whose "I know I'm going to love you" won its leading lady, Fernanda Torres, Cannes' best actress award last year. Miguel Faria, whose "Deadly Sin" won an Oscar nomination, is also writing in English.

But it is not just the dollars that are seducing the Brazilians from their homeland. Ironically, those local cinemas that show Brazilian-made films have to pay 50 per cent of their profits to the state company, Embrafilm.

"Absurdly, if we make them outside the country we keep it all." Faria points out. "It's an incentive to export Brazilian talent."

Biggs's luck

One film that could not be made anywhere else is "A Prisoner of Rio," a fantasy based on train-robber Ronnie Biggs's already fantastic life.

The Biggs industry is quieter these days even though its eponymous promoter has fingers in half a dozen pies including Rio's best-known punk nightclub. A lot of the money for his ventures came from the massive sales of teeny-bopper records sung by 11-year-old Mike Biggs, whose birth alone had already saved his dad from Slipper of the Yard, extradition and the Scrubs.

"Biggs's luck," Ronnie winks, with obvious smug satisfaction. But in fact, many who know him get the feeling, that beneath the bravura and bonhomie, he is really a prisoner. How much would he give, one wonders, to swap his tropical paradise for a pint of bitter in a drizzly Old Kent Road?

Sarney's grippe

Poor President Sarney. Thrust by the death of Tancredo Neves into the job, he now must contend with a movement to get him out of it again. To add to the insult, proponents of direct presidential elections have dubbed the latest virus, Sarney 'Flu—"It arrives when you least expect it, and you can't shake it off."

Observer

Land reform in the Philippines

Harvesting the cane: reform of the sugar lands is the key to President Aquino's programme

Tugging at the roots of an ages old problem

By Richard Gourlay in Manila

AMID HEADY claims that the crippling cycle of rural poverty would soon be broken, President Corazon Aquino last week made public her long awaited programme for land reform in the Philippines.

She was immediately swamped by attacks from landowners and peasants saying she had gone either too far or nowhere near far enough. Landowners signed in blood a vow to defend their land with their lives and 2,000 peasants marched through Manila accusing Mrs Aquino of selling out to her own class, the landlords.

The executive order she signed says that all agricultural land, including her family's 6,000 hectare sugar estate, will come under the land reform hammer. However, she left the guts of the programme—when reform of sugar lands will start and how many hectares landowners will be allowed to retain—for the new Congress to decide within 90 days.

Land reform is the most complex and important political issue to be tackled by the Congress, which sits for the first time today, marking the country's return to full democracy after 15 years of dictatorship and rule by decree. It will wear the victory laurels if land reform is successful; but equally will bear the weight of public opprobrium if expectations are frustrated.

By handing the really prickly decisions to Congress, Mrs Aquino has withdrawn her head from the public stocks. But she is still having to duck her fair share of missiles. A number of Congressmen have already said they want to redraft land reform from scratch. And many peasants, disillusioned by months of debate leading up to last week's announcement, think Mrs Aquino lacks the political will to confront the issue head on. With the issue now left for the Congress, the waiting may have only begun.

Under the planned reforms, landowners would be compensated for expropriated lands by the Government-owned land bank. Ten per cent would be paid in cash and 90 per cent in Government bonds payable in one lump sum after 10 years. The beneficiaries would have 30 years to repay the bank. The fact that landlords will have the right to assess the value of their own lands will no doubt be a major subject for debate in Congress.

While political manoeuvring and constitutional niceties have dominated debate in Manila, nothing much has changed for the landless in the countryside. Nowhere is the rural scene more hopelessly squalid, and more of an indictment of failing policies for the poor, than on the island of Negros. Once the "sugar bowl" of the Philippines, it is now seen by left and right as a social volcano and encapsulates, in somewhat exaggerated form, many of the difficult issues involved in land reform.

Iniquitous land distribution in this agricultural society has fed the 18 year communist led insurgency—Negros is arguably the rebels' strongest foothold in the Philippines. It has depressed rural earnings, lowered agricultural productivity and deterred diversification away from the ever less lucrative sugar.

At this time of year, before the sugar crop is harvested, malnutrition is a way of life on Negros. Only the palliative of international food aid, which will reach some 230,000 people this year, will keep the sunken cheeks of the underfed children of Negros off the covers of news magazines.

The few jobs available on Negros's sugar estate pay less than $1.50 (94p) a day—a kilogram of rice costs a fifth of that, a chicken about one day's work. The number of piecework labourers is increasing; they work only for seven months of the year during the cutting and planting season and have to rely on "consumo", or loans from the landlords, during the "dead season" before the harvest. So begins a cycle of debt and dependence that has its roots in 19th-century Spanish colonial domination, when the island's hacienda system of farms was established by the merchant ancestors of today's landowners. Farmers and reforming landlords recognise that dependence will be a hard habit to break.

Dependence on sugar—and the painfully slow pace of diversification away from a crop that was the country's largest foreign exchange earner 10 years ago—has exacerbated Negros's poverty.

When demand for sugar fell in the early 1980s, so did demand for men to plant, fertilise and cut the cane. Subsistence agriculture could not take up the slack.

Land reform, it is argued, would speed the diversification away from sugar, first into subsistence crops and then into more lucrative export crops. It would also bring idle land back into productive use. Some such land was abandoned after an earlier land reform programme under former President Ferdinand Marcos which covered rice and corn lands. Landlords often left their land idle, afraid that it would be "reformed" if they put tenants on it to grow rice.

However, attention is focused on reform of the sugar lands as it is here that the inequality of opportunity is most striking. Some of the 5,000 *hacienderos* on Negros, whose plantations average 50 hectares, have voluntarily distributed land to their workers and helped provide them with credit and skills training. Often, such redistribution has failed: unable to make the land pay, many workers have been forced to return fields to the landlords and ask to go back to their jobs.

Lack of credit for seed and fertiliser, lack of management and marketing skills, poor land and decades of dependence are often behind this failure. But frequently it is grasped as an argument against further land reform rather than a goad to improve education and support services. Says Tony Gatusiao, the head of one of Negros's oldest landowning families, "I feel it is enough to allow them (the farm labourers) to plant on my property," referring to land he has abandoned.

Negros has known better times. When profits were high—but wages just as low—in the 1970s, sugar financed lavish parties where champagne flowed from garden fountains. Philippine Airline charter flights carried the "sugar barons" nightly to Manila's casinos, and planters rarely visited their estates except to deliver wages by helicopter. But little of the wealth that Negros created stayed on the island in the form of investment.

Such shows of wealth heightened political tensions in the 1970s and helped turn scores of peasants towards the communist led insurgents who led the popular cry for land reform. About 2,000 of the country's 23,000 New People's Army guerrillas now operate on four fronts in Negros and the military admits that these guerrillas influence or control 20 per cent of the island's villages.

In addition, Communist Party political workers exploit every failure of the Government to live up to people's expectations. As long as there are no signs of land reform, they are sowing their message in fertile soil.

Not surprisingly in a devoutly Roman Catholic country, the church has become involved in the land issue. Last week, before Mrs Aquino signed the land reform code, moderate bishops put out a pastoral letter criticising her for not acting sooner.

"Poverty and inequity are a scandal of the first order for any national community, more so for one that calls itself Christian," said the letter, delivered in churches across the country.

Increasingly on Negros, radical priests are preaching a Filipino version of liberation theology. "The peasant situation is not the will of God, it is the will of the oppressors," says Father Greg Patino, a Negros priest who believes the New People's Army guerrillas are fighting a "just war" against the Government. The number of priests who have crossed the line of actively supporting the rebels is still small.

Last week's proclamation has led to considerable uncertainty on Negros. In June, the major private banks froze agricultural loans pending the announcement—they were uncertain how the value of their collateral, the land, would be affected. Bankers say the loans will remain frozen until Congress decides how much land each landowner may retain and when redistribution of the sugar properties will begin.

This makes it even more important for Mrs Aquino to persuade Congress to meet her 90-day deadline. Enforcing the deadline, but also ensuring the flavour of her bill is not altered, is a crucial test of her strength and her control of the new Congress.

Many Filipinos doubt that she will succeed. They believe Congressmen will drag their feet on the issue—feeding suspicions that Congress is on the side of the landlords—and will eventually approve only a watered down version of reform.

Lombard

Time to move interest rates

By Samuel Brittan

THERE IS a danger that those of us who do not share the puritanical obsession of sections of the City with bank lending and credit totals in absolute numbers will be regarded as complacent about the dangers of inflation and over-stimulation in the UK. The latest trade, banking and consumer spending estimates give a chance to put the record straight.

Government economic management is never perfect; nor are economic assessments. It therefore always makes sense to ask in which direction are the risks being run—those of overstimulation and inflation, or those of deficient demand? To ask the question is to answer it. The risks are clearly on the side of overstimulation.

There is no problem about running a modest trade deficit. The world is short of creditworthy borrowers, and the odds still are that when the effects of oil prices have worked through and the final revisions are in, the UK current account will be found to be in balance for 1987 as a whole, as it was in 1986, despite mid-year alarms.

The more serious worry raised by the May trade figures is that demand may after all be pressing on the limits of either physical capacity or of skilled labour in key areas.

The June banking figures raise the possibility — no more than that—that the annual rise in bank lending may have gone above the 16 to 20 per cent tramlines in which it has been confined during most of the last eight years.

Overwhelmingly the most worrying signal of potential inflation is, however, the behaviour of house prices. The Halifax house price index for the south east is 24 per cent above a year ago. There are even reports that companies will be providing floating accommodation on the Thames for key workers in the south east.

There are also some slight signs that, either because of housing costs, or directly, wage inflation may be creeping upwards. The Department of Employment has raised its estimated underlying rate of pay increases from 7½ to 7¾ per cent per annum. More significantly "labour supply problems" — now reported by 25 per cent of companies — have shot up as a business concern in the Institute of Directors Quarterly Survey and now exceed demand constraints in importance. This week will provide a new Confederation of British Industry Survey for comparison.

The major reason for not taking any monetary action against inflation is that the one policy action left to the Bank and Treasury is raising short-term interest rates. Until the last few days an increase in base rates would have risked driving sterling above DM 3.

The exchange rate objection was in my view decisive. It would have threatened the new-found international competitiveness of British industry. Moreover so long as sterling is near to DM 3 there is no way by which the British inflation rate for traded goods can long exceed the West German one.

The forestalling action, desirable before sterling becomes really weak, was on the fiscal front: namely a near-zero Public Sector Borrowing Requirement.

This is still desirable. But after the initial fall of sterling in the wake of the trade figures, it looked as if it might have been possible to raise interest rates too without pushing sterling above DM 3. By the end of last week it had become less clear.

The underlying moral remains: that any period of slightly weaker or less buoyant sterling should be used as an opportunity to raise interest rates. Bank of England intervention can be used to ride through short-term shifts in the foreign exchange market. But if there are subsequent major changes in the sterling markets, interest rates may have first to rise, then fall again and so on indefinitely.

That is what an exchange rate standard means; and businessmen and politicians who want stable exchange rates and growth without inflation, will have to put up with fluctuating interest rates, whether inside or outside the EMS. The sooner they learn this the better.

Letters to the Editor

Mineworkers' birthright

From the Secretary of the National Union of Mineworkers

Sir, — It was reported by your labour correspondent (July 24), under the heading, First pit set for six-day working, that the Midlands area officials of the Union of Democratic Mineworkers had accepted flexible working for Cadley Hill Colliery. British Coal recently told the unions at Cadley Hill that the pit had only 18 months' life or less and that the Central Area's proposals to mine new reserves from Cadley Hill had been rejected.

Now the UDM itself, rather than British Coal, has proposed that Cadley miners could work the new reserves on the basis of not only a six-day production cycle, but also a nine hour shift underground.

This represents nothing less than the sale of the birthright of all mineworkers. Strong language perhaps, but the fact remains that British Coal, to this point, has never been able to secure the agreement of any *mining* union to lengthen underground shifts. The significance of such a commitment is not lost on British Coal, which has been working night and day for two years to achieve this.

It is hard to believe that Dick Emery (a South Derbyshire UDM official) is ignorant of the implications. He showed a total lack of commitment to the interests of miners by conniving with Ian MacGregor when he was Board chairman. Mr Emery and other UDM officials from Daw Mill Colliery were sent on a trip to visit American mines by Sir Ian after the strike and they returned with lavish praise for flexible working practices.

Now he is the first to break that solidarity of mineworkers, whether in the NUM, the UDM or Nacods (the pit deputies' union), which is vital in maintaining the highest health and safety standards in UK mines. The issue is quite simply this: by conniving with British Coal, Mr Emery is laying the basis for the Conservative Government not only to overturn the strict legislation governing working hours in mining (specifically the 1908 Coal Mines Act), but also making it possible for the Government to wipe the 1954 Mines and Quarries Act, the industry's health and safety "bible," off the statute book. The 1908 Act and other working hours regulations are included in the Mines and Quarries Act.

British Coal has been trying radically to revise UK mines health and safety legislation for several years; but Nacods and the NUM, supported by the TUC, have thwarted their attempts. Current proposals to deregulate mines safety have been vetoed by the TUC representatives on the Health and Safety Commission.

The UDM proposal for Cadley Hill is likely to be welcomed with open arms by British Coal, irrespective of its viability. British Coal will then approach the Government with a request for a revision of the legislation claiming that such a change is supported by a mining union. The door to similar changes in all existing pits will be kicked open. All miners should be aware of the consequences and UDM members should realise that, in the Nottinghamshire coalfield alone, nine collieries could close and 7,000 mining jobs coud be axed in the wake of such changes.

All the mining unions should be totally committed to protecting the world's most advanced mining safety legislation. It is the horrific nature of past mining accidents and the continuing high risk to life and limb that makes the NUM determined to resist deregulation. We are also acutely aware that today's computerised mining technology could be used in a completely different way—in a way that enables an improvement in standards, a dramatic upgrading of miners' health, safety and ushers in working conditions that are more appropriate to the late 20th century than the 19th century.

P. E. Heathfield,
National Union of Mineworkers,
St James' House,
Vicar Lane,
Sheffield, S. Yorks.

Environment loses out

From Mr A. Murray

Sir,—Last week, as a landowner consulting with officials, I was inspecting a nice patch of England near this town—a patch of woods and farms looking towards Scotland—to work out details of a new by-pass and in particular the re-routing of an old local road now crossing the future line of the by-pass.

The layman's question was obvious and I put it. Why not sink the new road and put the old one over a bridge? It would save two green acres, limit roadsprawl, keep the old straight local route and—a bonus—bury some of the new traffic below field level. The officials agreed. There was an overriding objection, that it would cost an extra £300,000.

On the way home I reflected on the relation of public and private expenditure. Like everyone else I like paying 1p less income tax in the pound. Like many thoughtful people I see a case for it, that citizens should spend their own money and not let governments spend it all.

But there remain areas where the citizen *cannot* spend his money. They are ineradicably public, largely because they concern the territory defining the state. One is defence. Another is the environment. It must, somehow, be a false economy permanently to misdesign the environment because the state is strapped for the price of a private house.

A. Murray.
The Howard,
Hallbankgate,
Brampton, Cumbria.

Underground crush

From Dr S. D. Dover

Sir,—You report (July 21) that London Regional Transport is concerned about the overcrowding of some stations and is contemplating fare increases to combat this. It is also blaming the increase in waiting times on the increased number of travellers.

Surely the casualty is the reverse of this and the solution to overcrowding would be to schedule more trains, decreasing crowding and increasing passenger comfort and satifaction, while holding fares contant.

Dr S. D. Dover.
17 Heath Hurst Road, NW3.

Surely it is time for some positive thinking about Morocco

From Mr M. Lebbadi

Sir,—Your persistence in being hostile to Morocco is simply unjust. You may not like our king, but that is no reason for being systematically negative when writing about our country.

Despite many errors and a combination of unfavourable circumstances, Morocco is not in such a bad shape today and your reporters know that. Do not forget that we are a country of 24 million people (the most populous Arab nation after Egypt), that we have no oil, that we endured several years of drought, that we are fighting a war which was imposed on us by Algeria.

I know you do not agree with the last point, which explains perhaps your general attitude. "All nations are artificial" is your answer to the Moroccan argument that "the very notion of a Sahrawi people is an artifice" (July 14). Do you know that the Spaniards have tried by all means to lure nomads into settling in their former colony in order to set up a vassal independent state there, and that they only managed to come up with a "people" numbering less than 75,000 (their last census). Do you also know that there were not very many Sahrawis living in the major towns and that some of these towns, especially Dakhla, were forbidden for Sahrawis (except those working for the Spaniards).

The Western Sahara is an extension of the rest of the Sahara, nothing makes it different. Sahrawis exist, they number hundreds of thousands and they move about (or used to before the conflict) across several countries, knowing no borders. They are warriors and accounted for the bulk of the Moroccan Liberation Army in the South which liberated all the region (including the Western Sahara) in the late 1950s, but could not resist long against the combined French and Spanish forces. These Sahrawis considered themselves true Moroccans and it was only in the mid-1970s that some elements (who were in the first place active in the Moroccan opposition), allied themselves with Libya and Algeria and were influenced by them to combat "King Hassan's invasion" of the territory. These two countries aimed to weaken and bring down the regime in Morocco for reasons of their own.

If it was not for the shortsightedness of some of our political leaders in the 1950s, the problem of the Western Sahara would never have existed and Morocco would also have recuperated other regions which historically have always been considered as part of the Kingdom.

We are paying for these errors but please do not add to the bill your hostility and consequently the hostility of the readers you may influence who are, in their majority, important to Morocco at present. It is not just. And please do not forget that despite "the absence of a very close traditional or commercial tie to celebrate" (your editorial, July 14) the Queen of Great Britain *(and Northern Ireland, no comment)* received an overwhelming welcome from the Moroccan people. We considered it a celebration of many centuries of friendship and traditional and commercial ties between the British and Moroccan peoples. We love you in spite of everything.

Mohammed Lebbadi.
42 Bd de la Resistance,
Casablanca.

FINANCIAL TIMES
Monday July 27 1987

Roderick Oram on Wall Street

Sexton tolls message of doom

'THEY DON'T care if I get up at six o'clock in the morning to sacrifice chickens and look at the entrails,' said Mr Mason Sexton who believes stock markets are governed by laws of nature working in predictable harmonic patterns. 'Investors are interested only in results.'

Sexton by name, sexton by calling, the controversial founder of Harmonic Research of New York is bell-ringer and grave digger to stock market cycles. Drawing on an eclectic array of techniques from Pythagorean geometry and ancient Mesopotamian 'Square of Nine' charts to Elliott wave theories of investor psychology, Mr Sexton tries to predict to the minute the ups and downs of markets.

'Some people thought I was really out of my mind when I started.' Some still do but are happy enough with the results to pay $960 a year for his newsletter and telephone hotline service. Like a doctor or lawyer, he bills separately for individual consultations.

'We were definitely very sceptical when we first met him,' said Mr Marc Klee, who helps manage $200m at American Fund Advisors in New York. 'His techniques, to say the least, are unconventional. The lunar cycles, natural rhythms and all that stuff are very difficult to explain and therefore I don't believe them.

'But we've been working with him three years or so and his track record is well above average.' Mr Sexton's forecasts are only one source of many used by Mr Klee's firm, but they have proved useful, particularly those picking individual stocks.

Opinions vary, however, among independent services which track market prognostications of newsletter writers. Mr Sexton is ranked top among 19 short-term forecasters by Investment Hotline Monitor which finds him right about 50 per cent of the time.

Slavishly following Mr Sexton's trading advice on stock index futures would have netted a 148 per cent growth in capital over the past quarter, it calculates. The firm, from San Diego, California, has been operating for only three months, however, and some longer running services are more sceptical.

The Timer Digest of Fort Lauderdale, Florida, for example, places Mr Sexton in the bottom third of 45 medium-term forecasters. The rating clearly rankles Mr Sexton who protests his forte is short-term forecasts, said Mr Robert James, Digest editor. 'We've begun watching them (short-term forecasts) for our own edification. They're certainly good work but the jury is still out on how he will go down in history as a market timer.'

Mr Sexton has a sobering long-term message. The Dow Jones Industrial Average will rise from 2,500 today to as much as 3,350 by late next year. Then it will plunge 60 or 80 per cent in a crash 'greater than 1929.' He says '85 to 90 per cent of investors will get wiped out.' Only accurate market timing can save the minority.

Mr Sexton believes his skills, developed over recent years, can provide that guidance. He graduated from Harvard Business School 15 years ago armed with traditional analytical tools but became increasingly frustrated with them. 'At best they were hit and miss... There had to be some methodology to give greater predictability.' Applying astrology, ancient intellectual disciplines and other techniques to stock market history gave him an unshakable conviction that markets were governed by natural laws and were therefore predictable. This led inevitably to conclusions about his own life.

'I believe in destiny and fate.' He hesitated before pulling out solar arc, personal transit and other astrological charts from his leather telephone book and diary.'

But he stops short of letting them run his life. While he would consult the charts about, say, important business decisions, he had not checked whether this was an auspicious moment for a breakfast interview.

'The ultimate high is predicting the future. But it is also the ultimate hubris because of an element of playing God. I don't want to push my luck too far.' He sees grave dangers in trying to predict the great events of the world.

His ambition rather is to 'educate people to the harmony that things follow predictable, natural cycles. 'My goal is only to achieve financial security for myself and my family.'

That has its pitfalls. His Park Avenue apartment has appreciated 400 or 500 per cent and its an important part of my net worth, like many people in New York.' He wants to sell because he believes the coming crash will destroy property values. 'But my wife is absolutely determined to live there. It's her home.'

George Graham in Paris assesses the growing momentum of the Tour de France

The global cycle race gears up

IT SOUNDS like the best kind of Irish joke, to start the Tour de France in West Berlin.

For Stephen Roche, the 27-year-old Dubliner who yesterday pedalled down Paris's Champs-Elysees to victory in the world's most prestigious cycle race, the joke has a happy ending. He is the first Irishman to win the tour, and joins a select band of cycling heroes who have won the Tour de France and the Tour of Italy in the same year.

Yet, after four weeks and 4,000 kilometres, with 115 hours in the saddle, Roche still crossed the finishing line in the Champs-Elysees with only 40 seconds accumulated advance over his closest rival, Pedro Delgado of Spain.

The Tour retains its distinctively French accent, but it has turned into an international phenomenon. After this year's start in Berlin, the organisers hope to begin the 1989 race in the City of London.

The next step is to create a world tour, with major cycling races such as the Tour of the European Community and the gruelling mountain race of Colombia counting as stages. New races are expected to be created in China, Japan and Australia to ensure a truly global character.

The organisers of the Tour de France aim to take the lead in this world tour, with their own race as the final and most important stage.

'If we don't do it, someone else will,' said Mr Xavier Louy, race director.

The range of countries producing top cyclists has widened dramatically over the last few years. The US won the Tour de France last year with Mr Greg Lemond - absent this year because of injuries sustained in a hunting accident - but it is the Irish Republic which now dominates the world rankings. Roche and his compatriot Sean Kelly, who had to retire early in the tour with a fractured shoulder, now rank first and second.

Irishman Stephen Roche raises his arms in delight as he crosses the line on the Champs-Elysees to win the Tour de France

It is in Colombia, however, that the purest fanaticism reigns. After making their name as ferocious mountain climbers, Colombians took fifth and sixth places in the Tour de France, while the team sponsored by Cafe de Colombia came second overall.

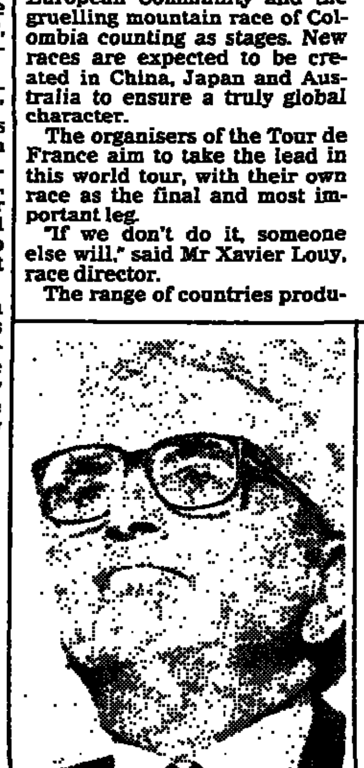
France, in contrast, is still in search of a hero after the retirement of Bernard Hinault, five times winner of the Tour. The French have a past champion in Laurent Fignon, instantly recognisable by his blond hair and gold-rimmed spectacles. But they have never taken him to their hearts as they did Hinault.

One candidate catapulted into the limelight with an extraordinary race up the slopes of Mont Ventoux, where the British cyclist Tom Simpson met his death 20 years ago: but Jean-Francois Bernard dropped back into third place after tactical errors in the Alps. He will have to wait next year before being able to graduate to hero status.

The Tour de France remains an extraordinary folk event in France. Spectators line almost every kilometre of the route, and in the Alpine stages thousands trudge to the top of the highest mountain passes - the roads are blocked to cars from 7 am - to see the platoon of cyclists, and the larger and noisier squads of cars and motorcycles that accompany them.

For politicians it has become an almost obligatory event. Prime Minister Mr Jacques Chirac appeared three times on the tour: in Berlin for the start; in the Correze district of the Massif Central where his wife is a local councillor, a stage funded for the most part by the since bankrupted Chaumet jewellery company; and, finally, for last stage in Paris, where Mr Chirac is mayor as well as prime minister.

However, the race has also developed a jet-set chic, with stars of screen and stage like Alain Delon and Jean-Paul Belmondo flying in by helicopter



Lord Young: export sector 'doing very well'

No more cash aid for British exporters

By Peter Montagnon

BRITISH EXPORTERS should not expect additional public money to support their activities as part of the UK Government's efforts to revive industrial employment and rejuvenate the inner cities, according to Lord Young the Trade and Industry Secretary.

In his most detailed statement of trade policy since taking office last month, Lord Young said in an interview that he would like to place more emphasis on providing information services to exporters, but the export sector was doing very well at present and it was doubtful whether it would benefit from additional government financial resources.

Lord Young, who is to make his fourth visit to China soon, said trade policy was an important aspect of the work of the Department of Trade and Industry and this should not be forgotten in the current preoccupation with inner cities, an area that had been "bolted on" to the department since his arrival.

This did not mean that more money was necessarily desirable. 'What you get for the money is more important than how much you put in.'

In particular he was lukewarm about industry's hopes for more aid money to be made available to back up British bids for contracts abroad and for a relaxation on the rules restricting Export Credits Guarantee Department (ECGD) cover for countries which had suffered debt problems.

Reshuffled Gandhi team faces Sri Lankan peace deal blow

BY OUR FOREIGN STAFF

PROSPECTS FOR the peace settlement in Sri Lanka, negotiated by India, receded yesterday only hours after Mr Rajiv Gandhi, the Indian Prime Minister, appointed himself foreign minister with the aim of basking alone in a foreign policy triumph.

Mr Gandhi reshuffled his cabinet in yet another attempt to restore his battered political fortunes. The centrepiece of a crucial week, with a new president, new cabinet and new parliamentary session, is supposed to be a visit to Colombo on Wednesday to sign the peace accord to bring an end to four years of ethnic strife in Sri Lanka.

But last night Mr Vellupillai Prabhakaran, leader of the Tamil Liberation Tigers, was reported in New Delhi as saying prospects for a signing on Wednesday were dim.

The Tigers have been fighting for an independent state for Sri Lanka's minority Tamil population. Mr Gandhi wants them to accept a peace plan which will establish a semi-autonomous Tamil homeland in Sri Lanka's eastern and northern provinces. But after two days of talks with officials Mr Prabhakaran said the proposals were unsatisfactory and would have to be improved. Mr Gandhi will now try to convince him today.

An agreement will be a major foreign policy triumph for Mr Gandhi. A western diplomat noted yesterday: 'A foreign peace is just like a foreign war. It distracts attention marvellously from the problems at home. But a failure will just make the domestic problems worse.'

Those problems continue today when the monsoon parliamentary session opens. The opposition will attack Mr Gandhi for his handling of a corruption scandal in which bribes and kickbacks are alleged to have been paid by Bofors, the Swedish armaments company, to secure a $1.4bn dollar contract with India.

Opposition parties will not only attack the Bofors deal but will also accuse Mr Gandhi of shielding people close to him who are accused of being involved in foreign exchange scandals. His own party is critical of the way he has sacked dissident members, particularly Mr V.P. Singh, former defence and finance minister and an outspoken critic of corruption.

Mr Gandhi has had a rough time too with the outgoing president, Mr Zail Singh, with frequent disagreements over the constitutional relationship of premier and president. The eighth president, Mr Ramaswamy Venkataraman, who was Mr Gandhi's nominee, began on a supportive note after his installation yesterday. "As long as he enjoys the confidence of the Lok Sabah (lower parliament) no power on earth can remove the prime minister from his office."

In the Cabinet reshuffle the controversial finance portfolio was given to Mr Narayan Dutt Tiwari, who was made foreign minister in the last reshuffle only a few few months ago.

Most other changes are minor except the significant move of Mr Makhan Lal Fotedar, Mr Gandhi's chief political adviser, away from the inner circle of influence and into the ministry of steel and mines.This effectively rids Mr Gandhi of the last of the advisers closely associated with his predecessor, his mother Mrs Indira Gandhi.

British Telecom to move into computer products

BY DAVID THOMAS IN LONDON

BRITISH TELECOM is planning to develop and manufacture computer-based products both in the UK and overseas, partly as a safeguard against stronger competition on its core telephone network in the 1990s.

The company believes it may have to acquire a leading software house in two to three years to pursue this policy.

It is also planning to develop products jointly with computer companies. In October,it will announce the first result of the new strategy, a system integrating telecommunications and computers, developed with the help of a US computer company.

The drive into computing products is being spearheaded by BT's international products division, which last year had sales of about £500m ($802m).

BT's board recently approved the division's new five-year plan which envisages a large increase in its activities.

Mr John McMonigall, the division's managing director, believes BT needs to develop and sell more sophisticated products partly, to defend revenues on its core network from computer companies which are moving strongly into such growth areas as sending data over telephone lines.

Mr McMonigall said: "If the user buys equipment from BT, he is more likely to buy network services from BT."

He said BT had no intention of developing or making computers. Instead, BT was focusing on two main areas:

- It intends to work with computing companies to develop products integrating telecommunications and computing.
- It is also planning to develop a full range of products for companies' private data networks. These include modems, which convert computer data into signals to be transmitted down a telephone line, and multiplexers, which manage transmissions over a line.

Mr McMonigall said his division might have to make acquisitions to achieve its aims, including manufacturers of modems and multiplexers. The division's five-year plan envisages the purchase of a large software house

US trade policy unchanged

Continued from Page 1

are not strategically sensitive while making the controls on sensitive exports more effective.

As the US trade deficit mounted, he was the first cabinet level official to focus public attention on questions of US competitiveness and productivity. He urged a lower dollar when, before its sharp decline, the dollar's strength was making US business uncompetitive internationally, and he urged pressure on US trading partners to moderate unfair trading practices.

Mr Baldrige is credited with crucial roles in last year's agreement in Punta del Este, Uruguay, to open a new round of global trade-liberalisation talks under the General Agreement on Tariffs and Trade (Gatt) and to press Japan to open its markets to USgoods.

He had been particularly tough with Japan in urging the Tokyo Government to take on greater role as a leading power in promoting two-way world trade.

He had also recently argued for changes in the Senate version of the trade bill

World Weather

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK airline close to deal

Continued from Page 1

either transatlantic operations or one-stop and non-stop operations.

The choice of engine is also the key. British Airways prefers the MD-11, but would like to have it with the advanced version of the RB-211 engine, called the Series 700, now planned by Rolls-Royce.

This would be more powerful than the current RB-211-524-D4D, leap-frogging competition from General Electric's CF6-80C2 and Pratt & Whitney's PW-4000.

However, Rolls-Royce has not yet launched the Series 700, although it may do so later this summer. It would take several years to develop, and there are doubts that it could be ready in time for installation in any MD-11s British Airways may choose to buy

The alternative would be to buy the MD-11s with existing US General Electric engines, re-engining them later with the Series 700. This would be an unsatisfactory and expensive procedure which the airline and McDonnel Douglas would prefer to avoid.

THE LEX COLUMN

The return of high-rise

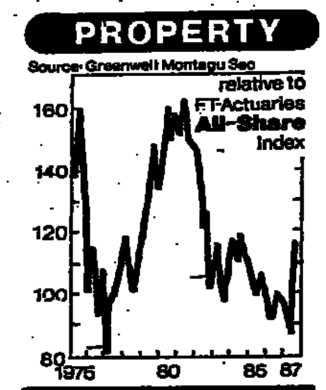
Throughout the past decade there has been a foolproof way for an institution or fund to be left behind by the crowd and to underperform against any reasonable set of indices. It was only necessary for the fund to be overweight in property, either as a direct investor, or indirectly, through property equities, and disappointment was guaranteed. The reaction has been continous diminution in the real level of institutional investment in property, so that by last year net investment in the sector was at the lowest real level since the early 1970s.

Inevitably, this low point has appeared to coincide with a surge in property values and rental growth which has not been seen since the ill-fated Barber boom. And, equally inevitably, institutions are now wondering whether it might not now be time to increase the proportion of their funds invested in property.

While this rekindling of interest has been too recent to show up in aggregated figures for institutional property investment, its effect has been palpable in the equity market. Property shares have risen by about 50 per cent this year, and have outperformed other sectors, with the somewhat esoteric exception of mining finance. Set in a longer time-scale the rerating might look like a molehill against the mountainous fall in the relative value of property shares since 1980. But it has been sufficient to drag the share prices of even the older property investment companies above their stated net asset values. It is not enough simply to argue that those values are out of date, for in many cases the shares are at premium even to brokers' estimates of current asset values.

This cannot be justified by speculation about the chances of a break-up bid, since a fire sale would crystallise significant tax liabilities, which a company as a going concern hopes never to pay. The calculation seems more to be based on the belief that although a company may be trading at a premium to a value based on the discounted stream of future rents from its existing properties, its value would be transformed by comprehensive redevelopment of the portfolio into more modern buildings with far higher earnings potential.

The problem is that there is not the finance available for all such companies simultaneously to redevelop all their portfolios,



and, even if there were, the time-scale involved would land us comfortably into the middle of the next bear market. There is a similar hitch to the hopes put on those much smaller merchant dealer property companies, which now regularly trade on earnings multiples in the twenties.

Such a venture can certainly be the best performing share of the year on the basis of using a shell company to bid astutely for land and then realising the development potential. But long-term growth in profits requires a greater and greater supply of such steals, which the property market can not meet. Such companies are more likely to end up like the property investment companies with which they are now contrasted, in much the same way that a successful independent oil company finds that it cannot forever be replacing its reserves and becomes instead a high-yielding stock suitable for widows and orphans.

Perhaps the City of London is disproportionately affected by its own immediate environment. The greatest gain in rental value has occurred in the City, with rents jumping from £33 to £55 per sq ft within a couple of years. But the supply/demand gap in office space is rapidly narrowing, and is expected to close altogether by the end of the decade. Ever increasing rents demand ever increasing incomes on the part of tenants.

While the securities houses are making sizeable inventory profits through being long of equity stocks in a bull market, all is fine. Yet, in an extreme case, a bear market-enforced rationalisation in the securities industry could be compared with the effect of the recession on the industrial rental market in the regions. But so far the rationalisation has actually involved foreign money coming into the City, whether it be Union Bank of Switzerland banging together Phillips & Drew with Wood Mackenzie, or Credit Lyonnais taking out Alexanders Laing & Cruickshank. And of course there are the Japanese, with the £143m purchase of Bracken House by Ohbayashi Corporation adding over 10 per cent to the value of most property shares within a week. If London gets its share of the Japanese wall of money, no one in the City will mind too much if the money goes into walls.

Elders IXL

Today the board of Elders should announce its reaction to the radical restructuring plans tabled by AFP Investment, which could soon hold options over almost two-fifths of the group's stock. The restructuring is intended to free up to A$12bn ($8.5bn) for bids, bring in safe minority shareholders and give Mr John Elliott more room for political activity plus a sizeable stake in Elders.

Its most likely shape is a split up into four or five units - brewing, banking, resources, international trade and pastoral - over which a dividend income only holding company will rule. AFP's role is to guard Elders against predators while this is accomplished.

As Courage forms more than half of Elders' international brewing empire, the overall sales of which are forecast to total A$5bn in the year to June 1988, a move of the group's beer headquarters to London (along with a UK flotation ?) would have attractions - although a Pommie label might harm Fosters' 'Australia's favourite' image.

Another spin-off target is Elders A$2bn investment in BHP and Elders Resources. While no immediate surrender of BHP to Mr Robert Holmes a Court is likely, a full bid from Bell might prove irresistible.

If AFP passes over some of its options on the new umbrella company to Mr Elliott - it certainly does not want to own more than 20 per cent and be obliged to bid under Australian rules - Elders restructuring would, in part, become an elaborate executive share option scheme. No doubt Mr Elliott will insist, paraphrasing his mentor, that never in the field of corporate conflict was so much owed by so many to someone.

FINANCIAL TIMES
Monday July 27 1987

INTERNATIONAL BONDS

Move towards sensible pricing in Eurodollar sector

A TREND to more realistic new issue pricing – the Eurobond market's reaction to losses caused by frantic primary market activity last year – has become apparent over the last few weeks as syndicate managers have tentatively attempted to reopen the Eurodollar market, **writes Clare Pearson in London.**

Nervous market conditions have indeed made sensible pricing a necessity, for a house issuing a new Eurodollar bond these days needs to hedge it. The cost of the hedge creates a pressing need to lift the paper off its book as quickly as possible.

The same consideration has created greater price discipline during primary trading, since the hedge commits the dealers to maintaining the yield spread relative to US Treasury bonds at which the issue was launched.

This month has seen a number of realistic Eurodollar bond pricings, such as those for the World Bank, and, this week, the European Investment Bank and Sweden.

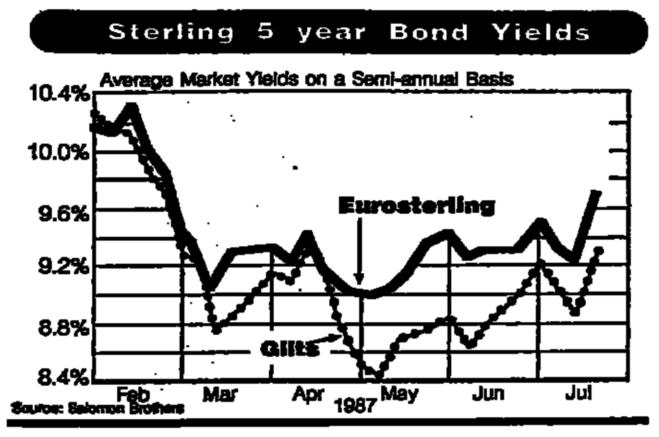
All these bonds were considered moderate successes despite the widespread view that the flow of new money into the Eurodollar sector has been miserably low.

As an indication of this, the 10-year bonds for the World Bank and the EIB have fared better than some other shorter-dated issues, even though the short end of the yield curve has been thought the area of greatest investor interest.

But these issues provided investors with attractive switches out of existing secondary market issues. The $200m five-year bond for Sweden, on the other hand, was priced broadly in line with secondary market trading levels.

Hopes of deeper interest in Eurodollar bonds suffered setbacks on Friday, as the recovery in the Tokyo stock market started worries about how far the Japanese would participate in the US Treasury auctions next month.

But the Eurodollar bond market's depression was as nothing compared with the dashed hopes in the Eurosterling market where prices suffered sharp falls last week in reaction to worse-than-expected June bank lending and May trade figures. The price of a £200m 20-year issue for the World Bank shed 2½ points during the week while shorter-dated bonds lost up to 1½ points.



But by the end of the week Eurosterling dealers were cautiously hoping that tempting yields of more than 10 per cent on seasoned issues for such borrowers as the UK building societies and some sovereigns could lure investors back in.

J. Henry Schroder Wagg last week announced the most radical scheme yet for mopping up perpetual floating rate notes left over by the market's collapse last December. These are still held mainly by Japanese banks.

The offer enables investors to exchange their holdings of 37 perpetuals for some 28-year bonds guaranteed by Financial Security Assurance, and non-voting shares in the special purpose issuing vehicle. On top of selling the bond, they are asked to pay a cash amount which varies with the quality of the issue.

The most important difference between this and earlier attempts to repackage single perpetuals is that it addresses the problem of expected capital requirements. It is feared by Japanese bank holders of perpetuals that their authorities will converge in their treatment of perpetuals with the UK and US Authorities, and require that bank's holdings of other banks' perpetuals should be deducted from their own primary capital.

But the problem with Schroders' structure, FRN specialists said last week, is that it is highly expensive for holders of the better quality more tradeable issues, such as those of the UK clearing banks.

One banker calculated that in the case of a $600m issue for Barclays, the investor would lose seven percentage points on the transaction, and would be better off just selling his bond in the market at a price around 90.

But for lower quality issues, quoted at below 90 but in which there is no real market, Schroders' offer looked far more attractive.

The offer was officially launched on Wednesday, but Schroders said it had not received any takers by Friday afternoon but believed investors were still studying the terms.

Schroders is prohibited by the guarantor of the special purpose vehicle from creating a portfolio merely from the lower quality issues. But it could well be changing the cash prices before the offer closes on Friday morning.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,138.3	384.8	298.0	5,843.0
Prev	1,345.8	151.2	337.0	4,766.7
Other	2,157.8	0.6	772.6	307.8
Prev	1,597.8	233.3	715.1	456.9
Secondary Market				
US$	18,364.3	1,904.9	8,699.6	8,193.5
Prev	19,794.5	1,530.7	12,586.2	5,628.9
Other	18,530.2	1,295.3	4,910.6	10,706.7
Prev	18,831.9	1,065.5	4,295.5	9,236.4

	Cedel	Euroclear	Total
US$	12,645.4	33,181.0	45,826.4
Prev	17,291.8	28,849.2	46,141.0
Other	14,584.1	24,097.6	38,681.7
Prev	15,058.7	21,373.8	36,432.5

Week to July 23 1987 — Source. AIBD

Société Générale confirms plans for rights issue

BY TIM DICKSON IN BRUSSELS

SOCIÉTÉ GÉNÉRALE de Belgique, Belgium's largest industrial and commercial holding company, has confirmed that it plans to raise new capital via a rights issue this October.

The company said the amount involved would be "at least as much as last time," a reference to the near BFr 6bn ($156m) issue in May/June last year.

Société Générale is keen to improve its debt-to-equity ratio, which has suffered as a result of recent investments, notably its participation in the recovery plan at Fabrique Nationale, the Belgian arms manufacturer.

The company also bought a 2.5 per cent stake in CGE of France following privatisation, and issued loans to Alcatel, the new telecommunications concern which groups together activities previously carried out by ITT and CGE.

Referring to the current outlook, the board said that "despite higher financial charges ... the recurrent position on profits is expected to show a further increase mainly because of the rise in the dividends collected.

"The non-recurrent portion is less easy to predict at this time of the year, although substantial gains have already been posted." An increase in the net dividend for 1987 is anticipated.

Asko buys Massa stake

BY OUR FINANCIAL STAFF

ASKO, the fast-growing West German discount retailer, has bought a 24.9 per cent stake in Massa, another large German retailer which went public last year.

The stake was bought for an undisclosed price from Mr Karl Heinz Kipp, a member of Massa's founding family. At current market levels, 24.9 per cent of Massa's voting stock is worth about DM 310m ($167m).

Mr Kipp had said earlier last week that he had been discussing a possible sale of his stake in the company. Asko would not comment on whether it intended at some point to take a majority stake in Massa.

Both companies specialise in large warehouse discount stores, mainly in suburban locations, selling everything from building materials to cars.

INTERNATIONAL CREDITS

UK companies continue to keep syndicated loans market busy

BRITISH companies continued to dominate an international syndicated loans market which is barely resisting the temptation to sink into a summer lull, **writes Stephen Fidler in London.**

The £1bn financing for the industrial holding group, BTR, is ready for syndication. The group underwriting the £500m committed portion looked strong, comprising Bankers Trust, Credit Suisse, Deutsche Bank, Mitsubishi, Societe Generale and Sumitomo. Interestingly, the group lacks a British bank.

A $2bn financing for British Airways, to replace its fleet of 19 TriStars, has crossed an important hurdle. Lead managers National Westminster, Chemical and Mitsubishi, having agreed to underwrite half of the deal, are now said to have sought out six other underwriters

Terms have not emerged, but the financing is understood to carry a 20-year final maturity and a structure similar to, if more finely priced than, that put in place to finance the carrier's Boeing 747 fleet renewal.

It is not yet known which aircraft BA will decide on to replace the TriStars. This is a complication for banks since, as is common in aircraft finance these days, there is a risk that the lenders will end up as owners of the aircraft.

Bank of America International, with Deutsche, Gulf International and Mitsubishi banks, is arranging a £150m uncommitted advances facility supported by a revolving credit for London and Manchester (Mortgages).

The credit is for three years, extendible for a further two. For the first 18 months, there is a facility fee of five basis points and a margin of 12.5 basis points rising in the second half to 6.25 basis points and 15 basis points.

Following multi-option facilities for two property companies last week, one for £75m for London and Edinburg Trust through Salomon Brothers and Lloyds Merchant Bank and a £70m deal for Frogmore Estates led by Barclays de Zoete Wedd, National Westminster announced a £100m financing for Crest Nicholson. The five-year evergreen facility is being syndicated among a group of about 20 banks.

A £150m deal for Anglo Leasing, business equipment leasing subsidiary of J. Rothschild Holdings, is scheduled for signing today. The facility, arranged by S. G. Warburg, is an increase from the £60m facility arranged last year. It has a four-year maturity and incorporates a £75m revolving acceptance facility by tender.

Terms include a margin of 35 basis points for the first two years and 40 basis points for the remainder. A commitment fee of 25 basis points is payable if utilisation falls below half.

Nouvelles Galeries, the French department store group, has mandated Societe Generale to arrange an Ecu 100m multi-option facility.

A multi-currency committed line may be drawn at 10 basis points over Libor or in domestic French francs at 20 basis points over Libor. The five-year faciltiy, extendable to seven, has a facility fee of 7.5 basis points and a utilisation fee of 5 basis points if more than half used.

Harnischfeger-Industries, the diversified US industrial company, has mandated Bank of America International to arrange a $100m multi-option facility. It has a three-year maturity, a spread over Libor of 30 basis points and a facility fee of 20 basis points. The margin drops to 25 basis points and the facility fee to 17.5 basis points if the company achieves certain credit ratings.

The latest of a line of Portuguese borrowers emerged, with Empresa Polimeros de Sines, the state petrochemicals concern, seeking a $65m eight-year multi-currency loan facility through Mitsubishi Bank.

The financing will carry a strong letter of support from the Portuguese Treasury. Margins will be 17.5 basis points over Libor for years 1–2, and 20 basis points for the final six years.

First Chicago was mandated to raise $30m over 10 years for the global satellite communications organisation, Intelsat, with a 25 basis point margin.

Italian property shares placed

BY STEPHEN FIDLER IN LONDON

J. HENRY Schro der Wagg, the British merchant bank, said it had placed with UK and international investors 12.5m shares in Immobiliare Metanopoli, the property subsidiary of the Italian state holding company ENI.

The shares, offered at L1,250 each, were part of a public offering of one-third of the company's shares. After the sale, ENI will retain a majority interest in the company, which will be the largest capitalised property concern on the Milan Stock Exchange.

Goldman Sachs is handling the international placement of a further 12.5m shares. Some 60m shares together with convertible bonds representing a further 75m will be sold in Italy next week.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Signals from abroad may prove crucial

LAST WEEK was a rotten one for gilt-edged and for fixed interest markets worldwide.

In the midst of the parochial gloom about surging bank lending and the huge reported deterioration in the trade balance in May, two events abroad may prove crucial to underlying sentiment in the UK government bond market.

First, the Bundesbank took the decision to edge up the rate on its money market repurchase pact. Yes, adjustments in this rate may be technical and do not necessarily have to send out a policy signal.

However, the move did underline the fact that when the Bundesbank talks about its limited room to manoeuvre on interest rates, it is not just talking about lowering rates. The primacy of domestic monetary conditions in West Germany in the setting of policy has always been acknowledged, whatever the pressure from accoss the Atlantic.

This is perhaps not so in Japan which has in recent months always appeared more openly to compromise to the US position. However, last Friday saw the decision to raise the long-term Japanese prime rate by 0.3 percentage points. The immediate consensus of opinion was that this move did not imply tighter credit conditions. Nevertheless, the move seems to confirm the upward bias in interest rates worldwide and may send the wrong sort of signal to the US.

Back in Britain, all the talk is that the next move in interest rates is up. In the sense that interest rates are certainly not headed downwards if current trends on bank lending, the personal sector and the trade balance continue, this is obvious.

It is far from clear whether current trends, even if they continue, will elicit a policy response. This is partly because the available statistics are by no means easy to interpret and, until they are, there would be little point in slamming on the monetary brakes.

There is also the question of whether the exchange rate starts to build in expectations of higher inflation and a deteriorating current account. While last week's figures sent gilts into a tail-spin, the pound looked remarkably solid. While it remains so, so acting as the (sole?) lynchpin of the Government's anti-inflationary stance, it does not seem likely the authorities would resort to higher interest rates.

The first missile hurled at the market last week was the leap in bank lending but it is very difficult to tell how much of this borrowing might feed directly or indirectly into inflation.

There is no doubt billions of pounds has been added to lending as a direct result of Big Bang, which has brought not only vastly increased turnover but also severe settlements problems. However, this aspect does not explain June's jump in lending, particularly when the clearing bank figures pointed to vast borrowing for house purchase and consumption.

For all the theoretical agonising about the link between the housing market and general inflation and the lack of uniform conclusions, there is no doubt that uncertainty breeds caution, not least within the Bank of England.

The second Exocet hit on Wednesday with May's appalling trade figures, focusing the overheating debate on the existence or not of capacity constraints in industry. This again is an area where the evidence is difficult to pin down. The CBI's quarterly trends survey, to be publisheed tomorrow, may give the best guide we are going to get, with reports on capacity utilisation, export orders and price expectations.

What appears most likely is that there are constraints but these are by no means generalised across industries and there are no widespread signs yet of a price response.

All in all, the trade series is erratic and it is likely judgment will be suspended and nerves frayed until the next set of data due on August 11.

In summing up last week, Mr Michael Hughes, Barclay de Zoete Wedd's chief economist, said that whatever the figures mean, the uncertainty they have caused has removed the immunity against events abroad which the gilt market has been enjoying.

Britain may be going through an industrial renaissance and the fastest growth of any industrialised country but, in a world of fast monetary growth and firming interest rates, gilts may not be that encouraged.

Janet Bush

US MONEY AND CREDIT

Bears await backlog of Treasuries

THE US, the largest debtor nation in the world, will default on maturing notes on Thursday and run out of cash on Friday unless Congress finally gets its act together and raises the Federal Government's debt ceiling.

Chances are high that any increase will be only temporary while Congress and President Ronald Reagan continue to fight over how to reduce the Government's budget deficit. The impasse has already forced the Treasury to cancel several auctions, making credit markets in turn very bearish about the huge backlog of securities they will have to digest when government borrowing resumes.

Interest rates are already heading higher as traders try to stimulate sufficient investor interest in the securities. The price of the benchmark 30-year Treasury bond fell three points last week alone, pushing up its yield by almost 30 basis points to 8.83 per cent.

Analysts believe it will rise above 9 per cent in the near future, taking it back to the peak seen briefly during the bond market rout this spring.

That these crises are regular events makes them no easier for the markets to handle, particularly since they are unnecessary. The debt ceiling is no curb to government spending. It is merely a hostage to political rhetoric in clashes between Congress and the Government.

The ceiling was "an anachronism from the moment it was legislated in the Liberty Loan Act of 1917," said Mr David Jones, chief economist of Aubrey G. Lanston, a primary dealer in government securities. "The ceiling contributes only to interrupting the orderly offering of securities by the Treasury and raises the possibility that the US will have to default on its debt."

With the Treasury certain to cancel today's bill auction for the second week running, the volume of securities waiting in the wings is rising rapidly towards $50bn. The biggest chunk is the August quarterly refunding, details of which the Treasury will announce on Wednesday.

Between $28bn and $29bn of three-, ten- and 30-year notes and bonds are expected, with the markets relatively hopeful Congress will act in time for the auctions to go ahead on schedule on August 4, 5 and 6.

For once, the pre-auction bearishness of the markets does not revolve around whether the Japanese will be big buyers. As long as the dollar remains stable, demand from Tokyo should be strong despite changing market conditions there. Rising oil prices and a shift out of yen bonds have pushed up Japanese interest rates almost two percentage points since their April lows to just below 5 per cent.

But US bonds still command a four point higher yield than their Japanese competition, down from the abnormally high six point spread in April but above the minimum three points or so Japanese investors want as a hedge against adverse currency movements.

A number of other factors besides the overhanging auctions contributed to the poor tone of US credit markets last week. Most notably, some players drew gloomy conclusions from the testimony to Congress of Mr Paul Volcker, the retiring chairman of the Federal Reserve Board, and Mr Alan Greenspan, his nominated successor.

Mr Volcker said the Fed had not loosened monetary policy a notch, which the markets had assumed it had because of the small easing in the Fed Funds rate since May. Worse, some thought a small tightening might be in the works judging by his comments on Mr Greenspan's task to prevent recent rises in fuel and wages becoming permanent and inflationary fixtures in the price structure.

These were minority interpretations which had only a short-lived drag on prices. A more balanced view suggests that the Fed had passively allowed an easing by letting technical factors shave about half a point off the Fed Funds rate, at which banks lend reserves to one another. Moreover, Mr Greenspan is unlikely to change policy.

"Mr Volcker had but one mandate when he took over the Fed: to lower inflation," said Mr Mickey Levy, chief economist of Fidelity Bank in Philadelphia. Now that the financial system is back in better balance, "Mr Greenspan's mandate is not to change things." No good economic case can be made for a change in policy now but, perhaps more importantly, the political consequences of a tightening become graver as the 1988 election season looms.

The one unpredictable element in these calculations though, is the dollar. Its slight weakening over the past ten days has reduced confidence in its earlier recovery. The suspicion lurks in some minds that bad news could trigger a further slide which in turn could shake up bond markets and strain monetary policy.

★ ★ ★

One major and several minor economic statistics are due for release this week. Today brings personal income and consumption data for June with rises of 0.4 per cent and 0.5 per cent respectively from May, according to the consensus of more than 30 forecasts compiled by Money Market Services of Redwood City, California.

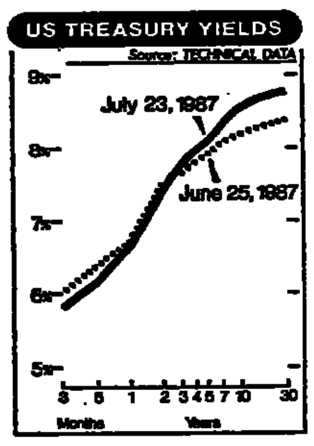
The estimate for growth in income range 0.2 per cent to 0.7 per cent and for consumption from 0.3 per cent to 0.8 per cent.

The closely-watched index of leading economic indicators will be published on Thursday morning. The consensus forecast calls for a rise of 0.5 per cent in June compared with a rise of 0.7 per cent in May. The estimated increases range from 0.2 per cent to 0.8 per cent.

June's factory orders and inventories will be released on Friday with a rise of 0.5 to 1 per cent expected in the former and no growth or a small decline expected in the latter.

Roderick Oram

US TREASURY YIELDS



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	Low
Fed Funds (weekly average)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month prime CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
90-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NRI TOKYO BOND INDEX

December 1985 = 100	23/7/87	Average yield (%)	Last week	12 wks ago	25 wks ago
Overall	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government-guaranteed Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Debentures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen-denominated Foreign Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government 10-year†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Estimated par yield.

Source: Nomura Research Institute.

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New "AA" Long Financial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New "AA" Long utility	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New "A" Long Industrial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Salomon Bros (estimates).

Money Supply: In the week ended July 13 M1 fell by [illegible]

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid price	Chg on week	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LUXEMBOURG STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GUILDER STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ECU STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EQUITY WARRANTS	Expiry date	Bid price	Chg on week	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BOND WARRANTS	Expiry date	Bid price	Chg on week	Ex yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on July 24.

This announcement appears as a matter of record only. These Securities have not been registered under the United States Securities Act of 1933, the Notes may not be offered or sold in the United States or to United States persons as part of the distribution and the Warrants may not at any time be offered, sold or traded in the United States or to or with United States persons.

New issue — 25th June, 1987

U.S. $130,000,000

Eastman Kodak Company

**9% Notes Due 1990
with
130,000 Gold Warrants**

Issue Price 113.175%

Union Bank of Switzerland (Securities) Limited

Banque Indosuez	Crédit Commercial de France

Shearson Lehman Brothers International

Banque Paribas Capital Markets Limited	DG BANK Deutsche Genossenschaftsbank
Goldman Sachs International Corp.	Leu Securities Limited
Mitsubishi Trust International Limited	Morgan Stanley International
Salomon Brothers International Limited	Société Générale

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New issue — 7th July, 1987

U.S. $200,000,000

General Motors Acceptance Corporation

(Incorporated in the State of New York, United States of America)

8¼ per cent. Notes due July 7, 1989

Issue Price 100.875 per cent.

Union Bank of Switzerland (Securities) Limited

Banque Paribas Capital Markets Limited	Commerzbank Aktiengesellschaft
Leu Securities Limited	Merrill Lynch Capital Markets

Shearson Lehman Brothers International

Algemene Bank Nederland N.V.	BankAmerica Capital Markets Group
Bankers Trust International Limited	Barclays de Zoete Wedd Limited
Chase Investment Bank	Compagnie de Banque et d'Investissements, CBI
Crédit Lyonnais	Daiwa Europe Limited
Dresdner Bank Aktiengesellschaft	Generale Bank
Goldman Sachs International Corp.	Kidder, Peabody International Limited
Mitsubishi Trust International Limited	The Nikko Securities Co., (Europe) Limited
Société Générale	S. G. Warburg Securities
Wood Gundy Inc.	Yamaichi International (Europe) Limited

Julius Baer International Limited	Banca del Gottardo
Banca della Svizzera Italiana	Bank J. Vontobel & Co. AG
Banque Bruxelles Lambert S.A.	Banque Générale du Luxembourg S.A.
Crédit Commercial de France	Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft
Kredietbank International Group	Kuwait International Investment Co. s.a.k.
Kuwait Investment Company (S.A.K.)	Pictet International Ltd
Rabobank Nederland	Swiss Volksbank

This announcement appears as a matter of record only.

New issue — 9th July, 1987

Schindler Holding Ltd.

Schindler

**200,000 Bearer Participation Certificates
of Sfr. 100 par value each**

Offer Price Sfr.810 per BPC

Union Bank of Switzerland (Securities) Limited

Credit Suisse First Boston Limited	Swiss Bank Corporation International Limited

Deutsche Bank Aktiengesellschaft

Julius Baer International Limited	Commerzbank Aktiengesellschaft
Kleinwort Benson Limited	Swiss Volksbank
S.G. Warburg Securities	Bank J. Vontobel & Co. AG
Banque Bruxelles Lambert S.A.	Bayerische Vereinsbank Aktiengesellschaft
Berliner Bank Aktiengesellschaft	Berliner Handels- und Frankfurter Bank
BNP Capital Markets Limited	Leu Securities Limited
Lombard, Odier International Underwriters S.A.	Pictet International Ltd

J. Henry Schroder Wagg & Co. Limited

This announcement appears as a matter of record only.

New issue — 7th July, 1987

SANDOZ

Sandoz Ltd.

(Incorporated with limited liability in Switzerland)

**25,000 Bearer Shares
of Sfr. 250 par value each**

Offer Price Sfr. 12,200 per Share

Union Bank of Switzerland (Securities) Limited

Credit Suisse First Boston Limited	Swiss Bank Corporation International Limited

Algemene Bank Nederland N.V.		Banque Bruxelles Lambert S.A.
BNP Capital Markets Limited		Deutsche Bank Capital Markets Limited
Morgan Stanley International		Nomura International Limited
Phillips & Drew Limited	S.G. Warburg Securities	Wood Gundy Inc.

Julius Baer International Limited		Banca della Svizzera Italiana
Bank J. Vontobel & Co. AG	Compagnie de Banque et d'Investissements, CBI	Darier & Cie
Leu Securities Limited		Lombard, Odier International Underwriters S.A.
Pictet International Ltd	Sarasin International Securities Limited	Swiss Volksbank

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Shell Oil ahead in second quarter

By Our Financial Staff

SHELL OIL, the US oil company owned by Royal Dutch/Shell, boosted second-quarter earnings from $219m to $266m, helped by crude oil prices averaging $4 a barrel higher than a year earlier.

This helped offset sharply lower margins on oil products, where earnings fell $90m to $56m. But refined products sales volumes continued to grow, and chemical products earnings were up 25 per cent.

Six-month profits were still down, from $495m to $374m, on revenues up from $8.83bn to $9.68bn. Crude oil and natural gas production was about the same as in 1986.

● Banc One, the Ohio-based banking group, reached a definitive agreement to buy Marine Corporation, a Milwaukee bank with assets of more than $4.2bn, for about $546m.

Each Marine share will be exchanged for 2.332 shares of Banc One. Marine has no connection with Marine Midland.

● Harcourt Brace Jovanovich, the US publishing group, will today pay shareholders a special dividend as part of the company's complex anti-takeover recapitalisation package.

This follows judgment by a Federal court denying applications by Mr Robert Maxwell's British Printing and Communication group and others for a preliminary injunction against the recapitalisation.

● Arthur D. Little, the Massachussetts-based consultancy group, said its board voted unanimously to reject the unsolicited $128m bid from Plenum Publishing.

Little said it had considered the opinion of Goldman Sachs, its financial adviser, that the $50 a share offer was inadequate, and concern expressed by clients and current and former staff members about any loss of independence.

● Southland, the US convenience store concern that is being taken private by the founding Thompson family, has reported a sharp fall in second-quarter net profits from $81.6m or $1.64 a share to $47.5m or 93 cents, due to continuing costs of 7-Eleven marketing programmes and higher depreciation and taxes. Revenues rose from $2.21bn to $2.45bn.

Predators sell HK hotels stake

BY KEVIN HAMLIN IN HONG KONG

THE BITTER BATTLE for control of the Hong Kong and Shanghai Hotels group (HKNSH), controlled by the family of Lord Kadoorie for more than 80 years, drew to a close at the weekend when predators announced they will sell their 34.99 per cent stake in the group for HK$2.24bn ($287m), bringing them a HK$136m profit.

The Evergo Industrial group, and its subsidiary China Entertainment, both controled by Mr Joseph Lau, will sell about 25.6 per cent of their combined stake to Kincross, a consortium of financial institutions brought together by HKNSH's financial advisers, Schroders Asia, for HK$1.64bn.

The consortium comprises Hang Seng Bank, Bank of East Asia, Crédit Lyonnais, Midland Finance, Samuel Montagu and Schroders Asia. A further 9.3 per cent will be sold to TKM Far East, a wholly owned subsidiary of Hongkong and Shanghai Bank, for nearly HK$600m.

The average sale price of HKNSH shares to be sold by Evergo and China Entertainment is HK$65, which compares with a closing price on Friday of HK$63. Under four sale and purchase agreements, the shares were sold for a low of HK$60.53 and a high of HK$77.46.

Under an agreement between International Trade and Investment (ITNI), a wholly owned subsidiary of HKNSH, and Kincross and TKM Far East, ITNI can until the end of October require the two concerns to sell their holdings to its own nominees. After that date, Kincross and TKM Far East can require ITNI to buy their entire holdings in HKNSH.

Evergo had earlier faced the prospect of being forced to make a full bid for HKNSH, worth HK$5bn to HK$6bn, when the Kadoories accused it of acting in concert with Lai Sun Garments, controlled by Mr Paul Lam, which built up a 10 per cent stake in HKNSH.

Under the local securities ordinance, a full bid is enforced if a shareholder controls more than 35 per cent, or if parties acting together exceed the trigger point. A hearing into the case ruled, however, that there was insufficient evidence to show the parties acted in concert.

Court gives Texaco more time

BY RODERICK ORAM IN NEW YORK

A US bankruptcy judge has granted Texaco a four-month extension to file a plan for paying off its creditors and rejected simultaneously an effort by Pennzoil to force a settlement on its own terms.

Pennzoil had argued Texaco should meet the original August 10 deadline by accepting a plan devised by Pennzoil under which it would receive $4.1bn in damages from Texaco. Originally, a Texas court awarded Pennzoil $10.5bn in damages because Texaco won Getty Oil from it in a bitterly contested three-cornered takeover fight.

Pennzoil said the ruling "materially reduces the possibility of a settlement." Judge Howard Schwartzberg ruled that Texaco deserved an extension to December 8 because of the complexity of the case. The oil company had asked for an extra seven months but said it was confident it could meet the December deadline. It still hopes, however, that the original damages ruling will be overturned by a higher court.

Meanwhile, Pennzoil has reported a drop in net earnings in the second quarter because of lower income from refining and marketing. Total net fell to $7.4m, or 8 cents a share, from $25.2m, or 51 cents a year earlier. The latest figure included, though, a $10m charge for non-realised losses on short-term marketable securities.

First-half profit was higher at $19.4m, or 28 cents a share, against $9m, or 3 cents. Revenues were $443m compared with $485m in the quarter and $888m against $998m in the half.

Strong advance at World International

By Our Hong Kong Correspondent

WORLD INTERNATIONAL, the ultimate holding company of the empire controlled by Sir Yue-Kong Pao, the property and ship-owning baron, recorded a post-tax profit up 42 per cent to HK$422.7m (US$54m) in the year ended March.

Profit attributable to shareholders more than doubled to HK$667.7m, compared with HK$324m, as a result of extraordinary profits of HK$245m mainly from subsidiaries as a result of a major reorganisation during the year. The results were in line with market expectations.

Wharf Holdings, the 40.1 per cent held property subsidiary, contributed about 80 per cent of World's bottom line last year, and earlier last week had announced record profits of just over HK$1bn, up 42.8 per cent.

World benefited from the acquisition from Wharf of 55.6 per cent of the Lane Crawford department store in October last year for HK$691.9m. Christmas and Chinese New Year shopping usually give Lane Crawford a strong second half performance. It recently reported a net profit for the year up 24 per cent to HK$111m.

The reorganisation of Sir YK's group, which began last October and has continued in this financial year, has revamped World into what many analysts feel is now the most exciting of Sir YK's entities.

World recommended a final dividend of HK$0.085 per share on an enlarged share capital, making a total dividend of HK$0.12, up 14.3 per cent.

TF1 shares go to a premium

By George Graham in Paris

TF1, the French television station, surprised its critics by rising to a premium last Friday, its first day on the Stock Exchange. Shares in the TV station, which was floated at a price of FFr 165, traded at FFr 178 on the Paris second market, a premium of 8 per cent.

The TF1 privatisation had earlier been hailed as the most resounding failure in the French privatisation programme, and demand for the shares certainly fell far short of the 2m to 3m individual subscriptions recorded for flotations such as Paribas, Compagnie Generale d'Electricite or Societe Generale. The offer for sale was, nevertheless, four times subscribed

Dealers said that the 426,000 shares traded had represented genuine buying demand.

R182m sought for new Transvaal platinum mine

BY JIM JONES IN JOHANNESBURG

GOLDEN DUMPS, the small South African mining company, hopes to raise R182m (US$88m) to finance a new platinum mine near the Transvaal town of Brits.

The public is being offered 2m shares in the Lefkochrysos mine at R13 each while another 12m shares have already been bought by other investors and the company's business associates.

Lefkochrysos will have 60m ordinary shares in issue following the current offer. In May R30m was raised through a preferential issue of 6m shares at R5 each to business associates.

Lefkochrysos owns mineral rights underlain by the platinum-bearing Merensky and UG2 reefs of the Bushveld Igneous Complex. According to the prospectus UG2 ore reserves at mineable depths total 125m tonnes containing an average of 5.9 grammes per tonne (g/t) of combined platinum group metals and gold.
fo (Mlera)um

Merensky reef reserves have not been estimated nor has the company disclosed the amounts of platinum group and other metals the mine is expected to produce. The intention is to mine UG2 exclusively at an initial monthly rate of 160,000 tonnes in 1989. Subsequently it is planned to lift ore production to 360,000 tons a month at an estimated cost of R350m.

The mine's exclusive reliance on the UG2 reef has prompted some Johannesburg mining engineers and metallurgists to express reservations about Lefkochrysos's potential.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Kobori Juken ¶‡	70	1992	5	2⅜	100	Yamaichi Int. (Eur)	2.375
Yokogawa Electric ¶‡	100	1992	5	2⅜	100	Daiwa Europe	2.375
Sumitomo Chemical ¶‡	200	1992	5	2¼	100	Nomura Int.	2.250
Mitsubishi Tst & B'ing §‡	100	2002	15	1¾	100	Mitsubishi Trust Int.	1.750
Toyo Saisan ¶‡	50	1992	5	3	100	Nikko Secs (Europe)	3.000
LTCB of Japan §‡	200	2002	15	1¾	100	LTCB Int.	1.750
Mizuno Corp. ¶‡	50	1992	5	2¾	100	Nomura Int.	2.750
Koa Fire & Marine Ins. §‡	70	2002	15	1¾	100	Nomura Int.	1.750
Toyobo Co. ¶‡	70	1992	5	2½	100	Yamaichi Int. (Eur)	2.500
Kyushu Matsushita El. ¶‡	150	1992	5	2⅜	100	Yamaichi Int. (Eur)	2.375
GMAC ‡	250	1989	2	8	101.05	Morgan Stanley	7.416
York Int. Corp. §	50	2002	15	(5¾–6¼)	100	Pru-Bache	*
Dairy Farm Int. (a)§‡	200	–	–	8¾	100	CSFB	8.750
Seiyu Ltd. ‡	70	1992	5	9⅛	101½	Nomura Int.	8.742
Sweden ‡	200	1992	5	8½	101⅝	Morgan Stanley	8.092
Kuraray Co. ¶	70	1992	5	(2¾)	100	Daiwa Europe	*
EIB ‡	150	1997	10	9⅜	101⅝	Morgan Guaranty	9.120
Goldstar Co. (Korea) §	30	2002	15	(1¾–2)	100	Merrill Lynch	*
DNC Int. Finance ‡	81	1989	2	7	99¼	Mitsui Trust Int.	7.417
Jets Ltd. (b)†‡	55	1992	5	3/16	100	Mitsubishi Fin. Int.	–
Lone Star Tech. §	50	2002	15	(7¾–8)	100	CSFB	*
CANADIAN DOLLARS							
Commerzbank O'seas Fin. ‡	75	1991	4	10	101½	Commerzbank	9.532
AUSTRALIAN DOLLARS							
CCF (Australia) ‡	50	1990	3	14	101⅜	Hambros Bank	13.414
GMAC Australia Fin. ‡	40	1989	2	13¾	101⅜	County NatWest	12.927
OKB ‡	75	1994	7	13⅝	101¾	Orion Royal Bank	13.227
ANZ Banking Group ¶‡	75	1992	5	13	111	CSFB	10.091
[illegible] ‡	40	1990	3	14	101¾	EBC Amro Bank	13.256
DSL Bank ‡	50	1990	3	13¾	101½	Morgan Guaranty	13.113
Kraft Inc. ‡	75	1991	4	13¾	101⅞	Morgan Guaranty	13.118
Denmark ‡	75	1989	2	13¾	101.475	Citicorp Inv. Bank	12.867
D-MARKS							
Suminoe Textile Co. §	70	1997	10	(½)	100	WestLB	*
SWISS FRANCS							
Polly Peck Int. Fin. ‡	75	1992	–	8	100	Warburg Soditic	8.000
Mitsubishi Tst & B'ing **§‡	100	1992	–	¼	100	UBS	0.250
LTCB of Japan **§‡	100	1992	–	¼	100	Crédit Suisse	0.250
Nankai Elec. Railway **¶‡	100	1992	–	1	100	B. della Svizzera It.	1.000
EEC **‡	70	1992	–	4⅛	100½	Kredietbank (Suisse)	4.013
Toyo Shutter Co. **§	25	1992	–	(⅞)	100	Crédit Suisse	*
Toyo Shutter Co. **¶	25	1992	–	(1⅜)	100	Crédit Suisse	*
Aoki Corp. **§	100	1992	–	(⅝)	100	Swiss Volksbank	*
Ueki Gumi **§	20	1992	–	(¾)	100	Citicorp Inv. Bank	*
C'wealth Bk Australia **‡	80	1994	–	4½	100⅜	SBC	4.437
Daiwa Seiko **¶	60	1992	–	(1⅜)	100	Banca del Gottardo	4.437
Desjardins du Quebec **‡	50	1992	–	4¼	100½	SBC	4.137
Quantas Airways ‡	110	1997	–	4¾	100¼	Bqe Paribas (Suisse)	4.718
BP Capital **‡	150	1992	–	4¼	100¼	Mgn Guaranty (Switz)	4.222
Prov. of Manitoba ‡	200	1997	–	4¾	100½	UBS	4.686
Kuraray Co. **§	100	1992	–	(⅝)	100	Crédit Suisse	*
Yahagi Construction **¶	35	1992	–	(1⅜)	100	Wirtschafts- und P'bk	*
STERLING							
Lonrho Finance §‡	60	2002	15	4½	100	CSFB	4.500
Elders IXL (Finance) ‡	300	1992	5	10¼	100½	CSFB	10.118
LIRE							
ENI Int. Bank ¶‡	60bn	1992	5	7⅜	100	SBCI	7.375
GUILDERS							
Yokogawa Electric ¶‡	75	1992	5	1⅝	100	Amro Bank	1.625
Amro Bank **‡	150	1992	5	6¼	100	Amro Bank	6.250
AUSTRIAN SCHILLINGS							
World Bank ‡	1bn	1999	12	6⅝	100.10	Creditanstalt-Bankverein	6.613
LUXEMBOURG FRANCS							
EDF **‡	300	1994	7	7⅜	100¼	Kredietbank Int.	7.328
EIB **‡	300	1994	7	7¼	99¾	BIL	7.297

* Not yet priced. ‡ Final terms. ** Private placement. ¶ With equity warrants. § Convertible. † Floating rate note. ‖ Currency-linked. (a) Convertible cumulative preference shares. (b) 3/16 over 6m Libor. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

Steven Butler on the implications of Smiths Industries' acquisition

Looking to remedy the imbalance

Mr Roger Hurn, chief executive of Smiths Industries, would appear living proof that all good things come to he who waits.

Smiths, the aerospace, medical and industrial group that evolved from a 19th century watch and clock company, has been on the look-out for a big acquisition in the medical or aerospace field for about three years, and its failure to move forward for so long had contributed to its shares lagging considerably behind the market.

The company, widely credited with excellent management, had squeezed about as much efficency from current operations as could be expected. About the only way to return sparkle to its shares, and bring back rapid earnings growth, would be through an acquisition.

This finally came last week with the agreement to purchase Lear Siegler Avionics Systems from Lear Siegler Holdings for $350m (£219m). The purchase immediately gives Smiths a big slice of the US avionics market, mainly military, to supplement its own strong position in Europe, while broadening its spread of technologies. Annual *sales in the division should top* £400m.

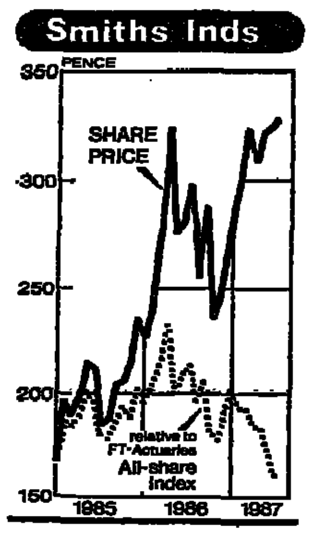
Mr Hurn does not expect the acquisition will result in any savings in research and development, but will allow a more finely focused and cost-effective programme to move forward.

"*We can bid for more, and* far more aggressively," says Mr Hugh Pope, chairman of Smiths' Aerospace & Defence Group.

The acquisition should also give a far better entry into the complexities of bidding on US government defence contracts. As Mr Hurn *puts it*: "By making goods in America, with good Americans making them, that is a plus."

The industrial and market fit appear nearly ideal. The only

Roger Hurn, chief executive of Smiths Industries



areas of overlap is in flight control computer systems. Lear Siegler is strong in airborne weaponry control, data recording, attitude heading and reference systems, and in airborne computation and gyro technology. Smiths has leadership in *electronic displays and flight* deck instruments, engine control, and fuel management.

Smiths had its eye on Lear Seigler Avionics Systems long before the year of wrenching uncertainty that led to the company's sale by auction, and this *could have been a factor giving* it an edge over possible rivals such as GEC. The auction followed a $2.1bn *leveraged* buyout of the entire Lear Seigler group organised by Forstmann Little, the New York investment bank, early in the year.

The only other major acquisition possibility, the Sperry aerospace division, was out of Smith's price range. That eventually went to Honeywell for $1.03bn in a sale late last year that for tax reasons had to go through quickly, complicating any potential foreign bid.

On the face of things, Smiths does not appear to have got a bargain, with an exit p/e of about 16.5. The deal will result in some short-term dilution of earnings, and Smiths will have to swallow an as yet unknown, though still possibly nil, charge due to cost overruns on contracts which are currently being renegotiated.

But Smiths is looking at the possibilities. Its own margins in the aerospace division have risen steadily from 10.4 per cent in 1984 to 14.7 per cent in the 1986 financial year. Lear Seigler, by contrast, earned trading profits equivalent to 8.2 per cent of sales and Smiths is confident about being able to raise that substantially.

"If we didn't think we could do it we wouldn't have bought it," says Mr Pope.

Smiths is also not worried about the expected US and worldwide squeeze on defence spending, sharing an industry perception that the electronics component of defence budgets will continue to grow. The demand is likely to rise for retrofitting aircraft — a cost-saving measure that involves installation of new electronic systems.

Mr Pope is expecting an eventual replacement programme for helicopters in the US Army that could include new machines with far more electronics built in.

The acquisition of Lear Seigler suddenly tips the balance of Smiths heavily towards the aerospace and defence field. Smith's 1986 turnover came 40 per cent (£159.6m) from aerospace and defence, 22 per cent (£89.7m) from medical, 32 per cent (£128.2m) from industrial, and 6 per cent (£23.6m) from Australia.

The addition of Lear Speigler raises aerospace and defence to 63 per cent of group turnover, and suddenly makes the rest of Smiths look a bit small. Mr Hurn is not happy with the result.

"I hope this is temporary," he says. "I would like to find a similar size acquisition in the medical sector." Mr Hurn earlier in the decade helped to steer Smiths out of the auto instrumentation field in a move that is widely praised for excellent timing.

He may have to wait yet again before finding the right medical acquisition, especially while investors absorb the most recent £223m cash call. Should Mr Hurn eventually succeed, it would mark yet one more reshaping of a company that has adapted successfully to over 100 years of evolution led by technological and industrial change.

COMPANY NEWS IN BRIEF

ASSOCIATED Furniture Holdings, shares traded over-the-counter, reported a pre-tax profit for the 15 months to end-March 1987 of £573,000 against a loss for the previous 12 months of £678,000. Turnover £4.06m (£1.42m), earnings per share 2.18p (losses 6.8p).

DERBY TRUST saw net asset value increase to 389p at the end of June 1987, against 306p at the end of December and 298p a year earlier. Earnings per income share for the six months to June 30 were stated as 4.7524p (4.2544p). An interim payment of 4.7524p (4.2544p) has been declared.

HEITON HOLDINGS (Dublin-based builders' provider, timber importers and fuel merchant): Final dividend 0.5p for year to end-April. Pre-tax profits £1871,000 (£783,000) against £1237,000 on turnover of £28.95m (£27.51m). After tax of £397,000 (£277,000) earnings per share 2.78p (1.41p losses) basic and 2.18p (nil) fully diluted.

YEOMAN INVESTMENT Trust improved its net asset value per 1p share from 111.5p to 184p in the six months to June 30 1987. Earnings per share were 3.86p (restated 2.61p). Net revenue before tax improved from £915,000 to £1.34m. The interim dividend is raised from a restated 2.25p to 3.8p net.

BRITISH Kidney Patient Association Investment Trust: Net asset value at end of six months to June 30, 1987 was 314.8p compared with 220.8p at the corresponding date last year. Earnings per share 4.36p (3.89p).

EDINBURGH AMERICAN Assets Trust reported earnings of 0.45p for the first half of 1987 (loss 0.08p). Total income £2.06m (£1.82m) and taxed revenue £365,000 (loss £58,000) after loan interest £1.13m (£1.34m). At June 30 net asset value after prior charges at par 164.8p (161.7p) and 155.2p (150.7p) fully diluted.

ASTRA INDUSTRIAL GROUP, has changed its name to Astra Trust to reflect the company's increasing activity in the financial sector.

Humberside Electronic in £4m acquisition

By Janice Warman

Humberside Electronic Controls, the USM-quoted renovator and convertor of machine tools, is to acquire Quinton Quinton, an investment company, for £4.4m, and appoint Mr Quinton Hazell, its partner, as chairman.

Mr Hazell plans to make a series of acquisitions to expand the capital base. He said Humberside had suffered cashflow problems because of the high cost of some orders and the money spent on research and development.

The company was producing high quality machines at around 60 per cent of the cost of equivalent Japanese or German products, had an excellent customer base and was ready for expansion, he said.

The company pulled itself out of the red with interim profits to November 30, 1986 of £10,395 —well down on the 1985 figure of £217,583.

Quinton Quinton is controlled by Mr Hazell and his wife, Morwenna, and owns commercial property in York and Leamington Spa, as well as cash and investments. It produced pre-tax profits of £14,464 in the year to June 30 on turnover of £80,131.

Mr Hazell is the former chairman of Quinton Hazell, *the motor components group* which was acquired by Burmah in 1973 for £58m. He was president of the Supra Group until its takeover by Evode earlier this year and is on the board of several companies.

The consideration will be satisfied by the issue to Mr and Mrs Hazell of 6.5m new ordinary shares.

CI switches advisers and brokers

By Nikki Tait

Shares in CI Group added another 2½p to 22½p on news that the West Midlands-based steel and engineering company is switching its advisers from Samuel Montagu to Robert Fleming. Its brokers will also change — County NatWest Securities giving way to Robert Fleming Securities.

Samuel Montagu said yesterday that it had resigned on Thursday, but refused to elaborate. The move to Robert Fleming, however, follows the acquisition of a 14.4 per cent stake in CI by a group of Arab investors, headed by Mr Ahmed Abdullah earlier this month. Fleming acted for Mr Abdullah during that transaction.

Fleming is also adviser to Evered Holdings, the industrial conglomerate headed by Messrs Raschid and Osman Abdullah, brothers of Ahmed. Evered recently disposed of 20.2 per cent holding in CI, which the Ahmed Abdullah consortium offered to buy. However, two weeks ago the shares were eventually placed at 46½p instead, and the consortium stake picked up in the market.

Bestwood stake

Mr Tony Cole, the former stockbroker who heads Bestwood, has picked up a further 655,850 shares—2.7 per cent—in the company lifting his stake to 22.2 per cent.

Mr Cole's purchases come just one week after Mr Terry Ramsden, the financier, notified Bestwood of the disposal of his 14.8 per cent holding.

FT Share Information

The following securities have been added to the Share Information Service:

Andaman Resources (Section: third market). Houston Industries Inc (Americans). Primerica (Americans). Stanco Exhibition (Paper).

Laidlaw surges to £1.13m at midway

MAINLY STEMMING from growth in new car sales, the Laidlaw Group of Ford main dealers turned in sharply higher results for the first half of 1987. Turnover was ahead 22 per cent to £54.4m while pre-tax profit hit £1.13m, compared with £412,000. And the interim dividend is raised by one-third.

The group is Edinburgh-based. Dealerships in Scotland recorded excellent profit increases with Strathclyde showing a return to profitability. There was again substantial growth at the Essex and Kent branches. Apart from new car sales other parts of the business, including contract hire, made useful contributions to the results.

Unit sales in the new car market were up 4 per cent. Current indications were for a record August and the company viewed the future with confidence.

Several redevelopment prospects were progressing and the directors expected them to generate cash for expansion in the near future. They said they were seeking acquisition opportunities in the motor distribution sector.

For the first half earnings came to 3.8p (3.7p) per share and the interim dividend is 1.6p (1.2p).

ANZ holding in Perkins

BY JANICE WARMAN

THE DIRECTORS of John Perkins Meats, a USM-quoted meat wholesaler, said they had received no information about the intentions of ANZ Bank, which has purchased a 23.4 per cent stake in the company from Sims Catering Butchers.

Mr Terence Atherton, financial director, said the directors had not received any communication from ANZ. The group was not vulnerable to a bid, he said.

Mr John Perkins, chairman, and his family have a 56 per cent holding in the group.

Perkins produced a pre-tax profits boost from £162,000 to £562,000 in the six months to March 28. The directors said the second half was unlikely to be as profitable, and that talks were being held with a view to possible acquisitions.

ANZ paid about £1.95m for the 2.25m ordinary shares at 87p each.

SCOTTISH AMERICAN Investment Company reported net asset value at the end of June 1987 of 128.2p, a 26.3 per cent rise over the December 31 figure. Net income for the six months to June 30 was £1.89m (£1.69m) *for earnings per share* of 0.85p (0.75p). The second interim has been raised from an [illegible] 0.45p to 0.51p.

Bank of Wales (IOM)

BANK OF WALES has agreed to sell Bank of Wales (Isle of Man) to the Bank of Scotland for £1.01m and the £300,000 variable rate subordinated unsecured loan stock 1997/99 of BOW (IOM) at its par value. Bank of Scotland owns 75.4 per cent of Bank of Wales which it acquired in 1986.

BOARD MEETINGS

TODAY

Interims:— Bullough, Control Techniques, Gestetner, James Ferguson Holdings, Robert H. Lowe, Newman Industries.

Finals:— Cowan De Groot, Mountleigh, A. J. Worthington.

Future Dates

Interims:—	
Boustead	Sept 30
Low and Bonar	Aug 24
Questel	July 28
St Modwen Properties	July 28
Trade Indemnity	Sept 8
Finals:—	
Dale Electric International	Aug 6
India Fund	Aug 18

MS pension fund stake increased to 6%

By Clay Harris

The pension fund of MS International has bought more shares in the mechanical and electrical engineering group to raise its stake from 4.99 per cent to 6.05 per cent.

The holding was worth about £1.7m at the MS closing price of 117p on Friday. It represents an insignificant proportion of the pension fund's assets according to Mr Michael Bell, MS managing director.

The pension fund, of which Mr Bell and two other MS directors are trustees, leaves investment decisions to Capel Cure Myers, the company's stockbroker. The fund was unlikely to want the stake in the company to be much higher than at present, according to Mr Bell.

The question of funds' investment in their own companies is being studied by the National Association of Pension Funds which plans to issue recommendations on "best practice" later this year.

Abbey Panels falls 7% in first half

In the half year ended March 31, 1987 Abbey Panels Investments suffered volatile trading and extremely tight margins in certain parts of its aerospace activities, and the directors felt it impossible to forecast for the year.

However, with the contracts to hand now they expected the year as a whole to be reasonable, and they are holding the interim dividend at 1.2p per share.

In the half year the group achieved sales little changed at £6.58m (£6.54m) while the pre-tax profit fell by 7 per cent, from £641,000 to £595,000.

After tax £294,000 (£329,000), including £86,000 (£89,000) for restatement of plant at replacement cost, the half year's earnings came to 15.05p (15.57p).

FINANCIAL TIMES STOCK INDICES

	July 24	July 23	July 22	July 21	July 20	July 17	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.35	89.37	89.54	90.36	90.78	91.20	93.32	84.49	127.4	49.18
Fixed Interest	96.90	97.00	97.39	97.52	98.53	98.78	99.12	90.23	150.4	50.53
Ordinary	1845.0	1836.1	1832.4	1872.0	1889.6	1916.9	1926.2	1320.2	1926.2	49.4
Gold Mines	442.8	447.5	446.3	437.1	424.8	429.7	485.0	288.2	734.7	43.5
FT-Act All Share	1192.66	1188.19	1191.84	1212.95	1219.82	1234.49	1238.57	835.48	1238.57	61.92
FT-SE 100	2346.9	2340.2	2344.5	2390.5	2400.7	2428.7	2443.4	1674.5	2443.4	986.9

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

JOHN SCULLEY, chairman and chief executive of Apple, is writing a book about what he calls the "easy" part of his turnround job on the Silicon Valley-based computer company — the management disciplines he put in place after joining the company in 1983.

Sculley, fresh from a five-year stint as the head of Pepsi-Cola, took a grip on a company which appeared to be veering out of control just as the computer slump hit the US.

He pulled together Apple's fragmented product development programme, which at times bordered on the chaotic, setting his engineers tough deadlines for new products. He merged and centralised Apple's different product divisions, which often operated as though they were autonomous companies. He laid down formal reporting procedures and strict financial controls.

And to ram the message home he closed plants, shed almost a quarter of the staff and shook up his top management.

Moreover, before he could complete that transformation he had to go through a bruising battle, lasting much of 1984 and 1985, which has already passed into legend in the computer business. He was in semi-permanent confrontation with Steve Jobs, the boy wonder who launched the personal computer business in the mid-1970s from what has become one of the most famous garages in industrial history.

That battle ended when Jobs quit the company he had co-founded, leaving the field clear to Sculley—confirming Sculley, despite his shy manner, as one of the hard men of US industry.

Apple Computer

And then came the hard part

John Sculley, talking to David Thomas, reflects on the battles and changes that have taken place in the five years since he moved into the US computer company

Observers were quick to write obituaries for a way of doing business which had marked out Apple as the outstanding example of Silicon Valley's laid-back style. Before Sculley took over, in a conscious attempt to keep alive the intellectual ferment and creativity of university days, jeans were almost de rigeur at Apple's California headquarters, known as The Campus.

You were a veteran at Apple if you were in your 30s. All that would change, the pundits said, now that the grey men, led by Sculley, had taken over.

Much indeed has changed, not least because key people—whom Sculley admits he would rather have kept—left the company about the same time as Jobs.

But Sculley believes he has carried through the changes in an almost unique way — a claim which justifies his book, to be published in the US in the autumn. "We have held on to the creative culture and still injected the discipline," Sculley claims.

He insists that Apple's early vision of making personal computers far easier to use through innovative and instinctive graphics still guides the company. Apple was never really tempted by the option of falling under IBM's influence by adopting IBM standards, a route urged on it by many outsiders, according to Sculley.

Sculley says, a little self-consciously, that the famous Apple style is alive and well. "We still have a great emphasis on having a work environment that is fun. We still do not have formal dress codes. We still have beer busts on Friday afternoon and parades and celebrations when we pass major milestones."

Apple people are proud that some of their engineers recently entertained the Grateful Dead, who use Apple's Macintosh machines to help write their songs. A concert by Huey Lewis and the News was the centrepiece at Apple's recent 10-year anniversary bash.

Sculley claims the company is still lean on hierarchies, perks and job titles compared with most US organisations. One executive, reportedly, describes himself simply as "Big Shot" on his business card.

Yet beneath this California-babble, Sculley has a deeper point to make. He believes the lack of structure before he arrived, far from being a symptom of creativity, hindered innovation across a broad front.

"There were great problems getting our products out of the door till we re-organised. We have increased the likelihood that innovative ideas will turn into shippable products."

This was, Sculley argues, because the company's efforts used to be focused in an unstructured way on one or two pet projects. Under Sculley, Apple has unveiled a stream of new products, including the Macintosh SE and the next-generation Macintosh II earlier this year.

Sculley continues: "There is a time when a company has to move from being run in the model of a founder making all the decisions to being run with more process and more people."

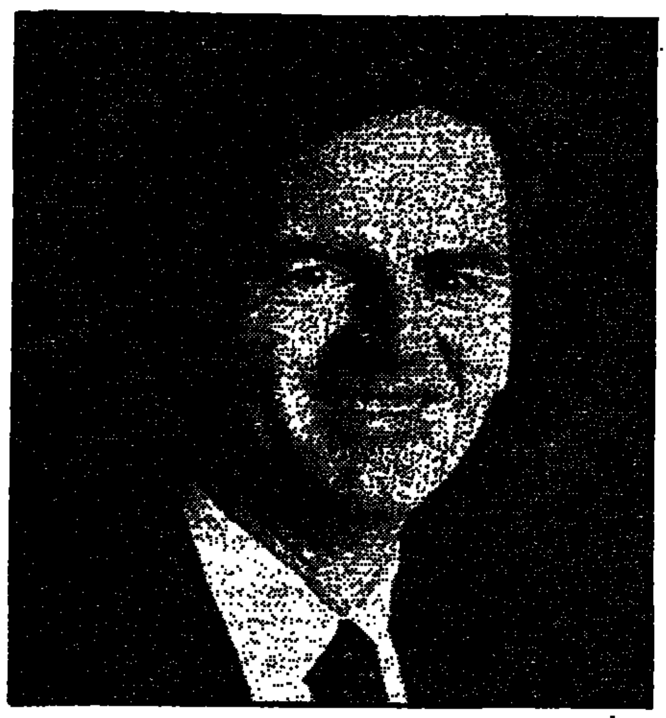
Sculley reckons a company reaches that point when it passes through the \$1bn-\$1.5bn annual sales barrier. Apple itself crossed this hurdle in 1983-84. Sculley's target is \$4bn sales by 1990.

Citing People's Express and Atari as examples, Sculley argues that few US companies have managed to combine their original entrepreneurial drive with the structures needed as they grew to that sort of size. Sculley's book will tell how, in his view, Apple has managed this balancing act.

Yet, wryly no doubt, Sculley calls this the "easy" part of what he has done. So what was the difficult bit?

"The more difficult part was re-positioning the company from an education and home computer base into a business computer company which also sells into schools and universities," Sculley says.

Sculley believed that Apple had to wind down its traditional reliance on homes and education. Homes were being attacked by a mass of cheaper models, mainly from the Far East; schools outside the US were closed to Apple mainly for nationalistic reasons; so the business market was the obvious place to go for high growth and higher margins.



John Sculley: "We have increased the likelihood that innovative ideas will turn into shippable products"

Part of the answer was the development of a new generation of Apple machines which combined the company's traditional selling point—their ease of use—with more power and functions, attacking head-on the view among many business computer users that Apple machines were fancy toys for the home.

The other part of the answer, Sculley says, was to copy a marketing technique he had used at Pepsi. "We had to create our own markets and then get more than our fair share."

Sculley cites desktop publishing, the development most responsible for boosting Apple's presence in the corporate market, as the key example of this. Apple dominated the first couple of years of desktop publishing, a market it more or less created, but Sculley professes to be relaxed now that the giants, such as IBM and Xerox, are moving in.

"We'd rather play in the mainstream and have IBM coming in and saying it's OK."

Sculley accepts that Apple is bound to lose market share because of the powerful new competition, but points to two counter-balancing advantages: the new entrants will help expand total sales and Apple will continue to have more than its share of the market.

Moreover, Sculley continues, Apple's creation of the market means it will have a head-start with the second generation product.

Computer experts remain divided about whether there is a longer term future for companies like Apple which stay outside the fold of IBM standards. But right now Sculley's strategy seems to be paying off: he says revenues from corporate customers will pass revenues from the home and educational sectors this year; and Sculley recently unveiled third quarter earnings 65 per cent up on last year.

Smoking policy: more a matter of health than a balance of interests

Robert East argues that what was once considered a nuisance has now become a hazard and that employers must be mindful that a risk of serious illness is now recognised

PEOPLE DO not smoke in coal mines or in oil refineries. They know that to do so would be to risk the lives of their fellow workers. We now know that life in every workplace is threatened by other people's cigarettes, something which employers have to take into account when they formulate policies on smoking at work.

Many people, of course, dislike working in smokey conditions anyway. They complain about stinging eyes and object to the smell of stale smoke that stays on their clothes after they have left work.

Now a nuisance has become a health hazard. The evidence on the risk of serious illness from passive smoking (breathing other people' ssmoke) has accumulated to the point where employers in the UK have to take account of it.

One line of research being pursued is to measure the absorption of carbon monoxide and nicotine by non-smokers in a smoke-filled atmosphere. This shows that the non-smoker might inhale the equivalent of one or two cigarettes a day.

This is a significant dose, but the interpretation of the evidence is complicated by the fact that non-smokers get mainly side-stream smoke and this may carry a higher risk than directly inhaled smoke. Sidestream smoke has a very high proportion of some carcinogens.

A second line of research, reported in the British Medical Journal by Professor Nicholas Wald and others, has compared non-smokers married to smokers with non-smokers married to non-smokers. After allowing for some misclassification of non-smokers and for the fact that even those married to non-smokers breathe some tobacco smoke, at work for instance, Wald estimates that non-smokers living with smokers have a total increase in lung cancer risk of 53 per cent compared with someone with no exposure at all.

In formulating a policy to deal with smoking at work, employers have to take account of variations in production processes, working patterns and shifts. These differences have to be accommodated in any policy on smoking. But the passive smoking evidence simplifies the issue by putting more focus on health and less upon the balance of interests between smokers and non-smokers.

In practical terms this means that any company policy on smoking must secure a smoke-free environment for all employees who want it. Applying this right-to-health principle means that a conflict of interest between smoker and non-smoker should not be solved by a process of arbitration which gives each party equal say. Instead the employer has to back the non-smoker. His or her preferences do not damage the smoker's health, but the reverse is not true.

In drawing up a smoking policy, consultation is required at all levels. This can proceed through the Joint Consultative Committee or the Health and Safety Committee, or through a special working party with appropriate representation from unions and management, and from smokers, ex-smokers and non-smokers.

A survey of employees is a worthwhile eercise too. It often shows that even some smokers support a policy on smoking because they hope that it will eliminate friction and may help them to reduce their consumption. Consultation makes people more willing to accept the resulting policy.

Information from surveys also helps union representatives to support action. Union positions vary widely, and the TUC's clear support for non-smoking is not always reflected at shop-floor level. Survey returns can also overcome the resistance to change that is often found among managers who smoke.

Consultation is also necessary to avoid legal complications. To be absolutely sure of avoiding suits for constructive dismissal, employers should take time consulting staff and should make some provision for those who need to smoke if restrictions are introduced at work.

Although consultation is necessary, there is not a lot of choice about the outcome. Accepting the right to a healthy environment means that the only working areas where smoking can be allowed are those that are 100 per cent occupied by smokers and which are ventilated separately from other areas.

It seems unlikely that smoke at work can be dealt with satisfactorily by air cleaning equipment. Machinery that precipitates the smoke particles reduces nuisance but does not eliminate carbon monoxide and carcinogens in the gas phase. Ventilation helps but has to be very powerful to have much effect and this raises the cost. Air cleaning or ventilation is of value in rest rooms allocated to smoking but it has yet to prove its place as a solution to tobacco smoke in working areas.

In practice, working areas and communal areas should become non-smoking and a rest-room may be provided where smoking is permitted. Smoking is acceptable in single offices if ventilation allows, but non-smokers cannot be expected to have meetings in such rooms. Meetings should be non-smoking unless ventilation is adequate and everyone votes for smoking. (This should not be decided on a majority vote.)

The policy should be well publicised and incorporated into the conditions of employment of new appointments. Its provisions should cover visitors and notices, should indicate smoking areas and publicise the policy at entrances and throughout the buildings. Communal areas can become non-smoking rapidly but changes in working areas should be staged or delayed for up to three months to allow people to adjust to the changes. The policy should state how transgressions are to be treated.

When smoking is restricted at work, business benefits from reduced fire risk, lower maintenance and cleaning costs, increased productivity (smoking takes time) lower air-conditioning costs and improved morale. If substantial numbers of smokers reduce consumption or stop there are further gains since smokers have higher levels of absenteesm from colds and flu and higher accident rates. They are also twice as likely to die before 65 as non-smokers.

The author is a consultant on smoking policy and is Principal Lecturer in the School of Business, Kingston Polytechnic.

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 24 1987					THURSDAY JULY 23 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (94)	149.30	+0.7	138.00	140.31	2.83	148.28	137.01	139.01	149.30	99.92	70.54
Austria (16)	98.59	+0.0	91.13	94.85	2.18	98.63	91.13	94.91	101.62	85.53	86.11
Belgium (48)	128.27	+1.5	118.56	121.47	3.92	126.35	116.75	120.28	128.27	96.19	81.78
Canada (132)	135.13	-0.5	124.90	131.02	2.14	135.76	125.45	130.65	138.59	100.00	95.16
Denmark (39)	113.58	+0.4	104.98	108.59	2.55	113.15	104.55	108.15	124.10	98.18	91.07
France (121)	107.59	+0.6	99.44	104.09	2.71	106.90	98.78	103.51	121.82	98.39	88.12
West Germany (92)	98.06	+0.5	90.64	94.49	2.00	97.56	90.15	94.06	100.33	84.00	81.07
Hong Kong (45)	134.26	-0.5	124.10	134.59	2.69	134.93	124.68	135.26	135.36	96.89	73.43
Ireland (14)	138.66	+1.0	128.16	135.20	3.31	137.31	126.88	133.94	145.41	99.50	91.56
Italy (76)	95.07	-1.3	87.87	95.21	1.90	96.31	88.99	96.53	112.11	93.47	88.65
Japan (458)	133.92	+5.1	123.78	126.89	0.53	127.40	117.72	121.40	161.28	100.00	91.19
Malaysia (36)	182.08	-0.3	168.30	178.44	2.10	182.55	168.68	179.27	186.58	98.24	76.89
Mexico (14)	309.34	+0.1	285.92	472.48	0.64	309.04	285.56	470.01	309.34	99.72	56.65
Netherland (38)	126.58	-0.1	117.00	120.54	3.66	126.70	117.08	120.81	127.97	99.65	88.73
New Zealand (26)	109.92	+0.0	101.60	97.49	2.99	109.97	101.62	95.93	109.97	83.93	71.88
Norway (24)	152.36	+0.3	140.82	140.00	1.95	151.92	140.37	139.70	152.36	100.00	91.66
Singapore (27)	161.30	-0.6	149.09	157.03	1.58	162.32	149.98	158.32	163.97	99.29	76.00
South Africa (61)	179.03	-3.0	165.48	131.57	3.18	184.62	170.59	133.43	186.74	100.00	73.10
Spain (43)	129.52	+0.5	119.71	124.61	3.24	128.88	119.09	123.95	129.52	100.00	82.72
Sweden (33)	118.87	+0.2	109.87	113.59	2.04	118.67	109.66	113.40	124.68	90.85	89.31
Switzerland (53)	102.41	-0.8	94.66	97.49	1.70	103.28	95.44	98.38	104.06	92.01	81.05
United Kingdom (336)	153.96	+0.3	142.30	142.30	3.06	153.46	141.80	141.80	162.87	99.65	92.47
USA (591)	126.01	+0.5	116.47	126.01	2.88	125.42	115.89	125.42	128.24	100.00	100.54
Europe (933)	124.65	+0.2	115.21	118.05	2.75	124.39	114.94	117.85	128.35	99.78	87.67
Pacific Basin (686)	134.49	+4.7	124.30	127.56	0.70	128.45	118.69	122.45	158.77	100.00	89.78
Euro—Pacific (1619)	130.60	+2.9	120.72	123.77	1.49	126.88	117.24	120.62	143.65	100.00	88.95
North America (723)	126.50	+0.4	116.92	126.31	2.83	125.98	116.41	125.74	128.80	100.00	100.26
Europe Ex. UK (597)	106.45	+0.1	98.39	102.89	2.48	106.35	98.27	102.88	107.75	98.02	84.79
Pacific Ex. Japan (228)	141.51	+0.2	130.80	135.54	2.70	141.30	130.56	135.02	141.51	99.92	72.25
World Ex. US (1826)	131.40	+2.7	121.45	124.35	1.53	127.93	118.21	121.38	143.38	100.00	88.97
World Ex. UK (2081)	126.85	+2.0	117.25	123.37	1.92	124.32	114.88	121.13	133.61	100.00	93.60
World Ex. So. Af. (2356)	128.94	+1.9	119.18	125.03	2.03	126.54	116.93	122.92	135.02	100.00	93.61
World Ex. Japan (1959)	127.07	+0.3	117.45	124.22	2.80	126.71	117.08	123.81	129.24	100.00	94.59
The World Index (2417)	129.26	+1.8	119.48	125.12	2.04	126.91	117.27	123.04	135.15	100.00	93.49

Base values; Dec 31, 1986 = 100

EUROPEAN OPTIONS EXCHANGE

Series		Aug 87 Vol.	Aug 87 Last	Nov 87 Vol.	Nov 87 Last	Feb 88 Vol.	Feb 88 Last	Stock
GOLD C	$460	50	6.80	8	22	—	—	$453.90
GOLD C	$480	—	—	73	13.20B	4	22	"
GOLD C	$500	50	1.60A	—	—	2	44.50	"
GOLD P	$500	—	—	—	—	—	—	"
		Sep 87		Dec 87		Mch 88		
SILVER C	$750	—	—	—	—	30	160	$771
SILVER C	$800	—	—	—	—	2	135	"
SILVER C	$850	—	—	3	70	—	—	"
SILVER C	$900	—	—	—	45	—	—	"
		Aug 87		Sep 87		Oct 87		
$/FL C	FL320	—	—	2	14.50	—	—	FL336.06
$/FL P	FL340	—	—	3	7.80A	—	—	"
		Aug 87		Sep 87		Oct 87		
$/FL C	FL205	—	—	41	5.10A	—	—	FL208.80
$/FL C	FL200	32	1.60	—	2.50	—	—	"
$/FL P	FL205	—	—	—	—	2	1.30	"
$/FL P	FL210	—	—	10	1.80	—	—	"
$/FL P	FL220	2	11.30	61	4.20	—	—	"
		Dec 87		Mar 88		Jun 88		
$/FL C	FL200	17	8.90	16	10.20	12	8.70	FL208.80
$/FL C	FL205	9	6.60	—	7.80	—	—	"
$/FL C	FL210	66	4.30A	—	—	—	—	"
$/FL P	FL190	6	0.80	—	—	—	—	"
$/FL P	FL200	20	2.90	—	—	—	—	"
		Oct 87		Jan 88		Apr 88		
ABN C	FL500	217	14.80	9	23	1	33.50	FL492.50
AEGON C	FL100	100	3.10	15	5.70	—	—	FL96
AEGON P	FL95	30	3.80	—	—	—	—	"
AHOLD C	FL105	14	6.50	—	—	—	—	FL106.10
AHOLD C	FL105	78	4.20	—	—	—	—	"
AHOLD C	FL100	20	9.80	—	—	—	—	"
AKZO C	FL170	701	7	278	10.60	29	14	FL163.60
AKZO P	FL160	339	5.30	92	8	—	—	"
AMEV C	FL65	50	4.30	2	6.60B	—	—	FL66.70
AMEV P	FL65	31	2.20	—	—	—	—	"
AMRO P	FL85	50	5.20	—	—	—	—	FL82.50
ELSEVIER C	FL56	344	3.70	—	—	—	—	FL54.10
ELSEVIER P	FL54	21	3.80	—	—	—	—	"
GIST-BROC. C	FL50	203	3.70A	43	5.20	32	7	FL49.80
GIST-BROC. P	FL50	253	1.30	27	—	—	—	"
HEINEKEN C	FL190	42	9.30	41	12.50	—	—	FL190.30
HEINEKEN P	FL180	19	2.60	—	—	—	—	"
HOOGOVENS C	FL45	114	3.80	61	6	—	—	FL44.20
HOOGOVENS P	FL45	108	3.90	34	4.50	—	—	"
KLM C	FL55	604	1.80	88	3.60	—	—	FL51.40
KLM P	FL50	217	2.60	45	3.60	2	4.30	"
NEDLLOYD C	FL160	397	8.50	19	12.20	4	15.50	FL156
NAT.NED. C	FL80	591	3.40	65	5.30	10	6.90	FL78.30
NAT.NED. P	FL70	75	0.90	62	2	—	—	"
PHILIPS C	FL55	1453	4.40	452	5.70	87	4.60	FL55.60
PHILIPS P	FL55	485	2.80B	101	9.20	45	12.80	"
ROYAL DUTCH C	FL300	390	5.50	—	8.80B	10	11.80	FL285.80
ROYAL DUTCH P	FL280	205	7.70	2	—	—	—	"
ROBECO P	FL110	10	3.10	—	—	—	—	FL108.40
UNILEVER C	FL140	343	6.30	37	10	10	13	FL139.30
UNILEVER P	FL136	47	3.60	2	5.80	—	—	"

TOTAL VOLUME IN CONTRACTS: 28,830

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk Ltd	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Intl (UK)	9
American Exp. Bk	9	Consolidated Cred	9	Provincial Trust Ltd	10
Amro Bank	9	Co-operative Bank	*9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe Guarantee	9½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp	9	Equatorial Bank	9	Royal Trust Bank	9
Authority & Co Ltd	9	Exeter Trust Ltd	9½	Smith & Williams Secs	9
Banco de Bilbao	9	Financial & Gen. Sec.	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp	10	TSB	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd	10	UDT Mortgage Exp	¶11.1
Bank Credit & Comm	9	● Robert Fleming & Co	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs	10	United Mizrahi Bank	9
Bank of Ireland	9	Grindlays Bank	‡9	Unity Trust PLC	9
Bank of India	9	● Guinness Mahon	9	Western Trust	9
Bank of Scotland	9	● Hambros Bank	9	Westpac Bank Corp	9
Banque Belge Ltd	9	Heritable & Gen. Trust	9	Whiteaway Laidlaw	9½
Barclays Bank	9	● Hill Samuel	§9	Yorkshire Bank	9
Benchmark Tst Ltd	9	C. Hoare & Co	9		
Beneficial Trust Ltd	10	Hongkong & Shangh	9		
Berliner Bank AG	9	Lloyds Bank	9		
Brit Bk of Mid East	9	Meghraj & Sons Ltd	9		
● Brown Shipley	9	Midland Bank	9		
Business Mtge Tst	9	● Morgan Grenfell	9		
CL Bank Nederland	9	Mount Credit Corp. Ltd	9		
Canada Permanent	9				
Cayzer Ltd	9				

● Members of the Accepting Houses Committee. * 7-day deposits 4%, Sureniks 6.66%. Top Tier—£2,500+ at 3 months' notice 7.97%. At call when £10,000+ remains deposited. † Call deposits £1,000 and over 4½% gross. ¶ Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.25%.

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
††	F.P.	—	66	65	BHP Gold Mines A$0.25	66	......	—	—	—	—
§110	F.P.	14/8	157	111	Babygro 10p.	156	......	R2.4	3.2	2.1	18.8
155	F.P.	7/8	193	158	Britannia Group (5p)	177	+1	R3.85	3.0	3.0	15.3
250	F.P.	31/7	372	250	Caradon 5p.	363	+16	L6.0	3.0	2.3	18.7
§120	F.P.	31/7	195	150	♣Colourvision 5p.	173	−5	R2.2	2.7	1.7	28.8
§92	F.P.	—	185	157	♣Cook (D.C.) 5p	160	......	u2.85	2.4	2.4	23.4
§82	F.P.	—	100	95	Crosby (James) 10p.	97	......	R1.75	3.4	2.4	16.8
§100	F.P.	25/8	121	116	♣Economic Forestry	118	......	R3.0	2.5	3.5	15.7
§95	F.P.	—	168	113	Elga 5p.	158	−2	L2.1	5.20	1.8	23.4
§178	F.P.	17/8	251	223	Glamar Group 10p.	249	......	u6.5	1.7	3.6	22.0
140	F.P.	—	191	179	♣Graham Motors 5p.	179	......	L3.5	3.5	2.7	14.6
¶¶	F.P.	10/8	285	275	Grahams Rint'l Inv Tst 5p.	275	......	—	—	—	—
§135	F.P.	13/8	225	184	Harland Simon (10p.)	203	−2	L1.9	4.1	1.3	26.3
§150	F.P.	31/7	190	150	♣Hey and Croft 10p.	176	......	R3.85	3.4	3.0	13.4
§105	F.P.	31/7	126	120	ITL Inf. Tech. 10p.	121	−2	R2.0	3.3	2.3	18.5
105	F.P.	5/8	215	105	♣Knobs & Knockers 10p.	157	+7	L1.17	4.60	1.0	29.3
§165	F.P.	14/8	231	165	Lancaster	230	......	L2.75	3.5	1.6	23.7
§175	F.P	22/7	210	190	♣Learm'th & Burch 10p.	208	......	Lb1.3	5.8	0.9	27.4
§295	F.P.	—	346	305	Monarch Res. 10p.	305	......	—	—	—	—
§130	F.P.	15/7	216	163	Neotronics 5p.	197	−3	R1.8	4.2	1.2	26.0
§110	F.P.	4/8	275	185	♣Parkway 5p.	271	−2	R1.5	4.2	0.8	42.7
§200	F.P.	—	208	201	Primadona	201	......	u2.25	5.1	1.5	17.4
§165	F.P.	31/7	265	183	♣Ross C'sum. Elec. 10p.	220	−10	L3.5	2.6	2.2	23.8
§35	F.P	—	47	35½	♣SEP Ind'l. Hldgs. 5p.	45	......	—	—	—	21.0
§63	F.P.	31/7	89	76	♣Shelton (Martin) 10p.	82	−1	u1.75	2.3	2.9	20.5
145	F.P.	17/7	195	145	Tie Rack 5p.	145	......	R1.1	4.2	1.0	31.5
—	F.P.	—	177	170	USDC Inv. Trust £1	173	......	H1.3	—	1.0	—
§130	F.P.	—	193	175	Warner Howard 5p.	191	......	R2.66	2.70	1.9	25.3

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price £	+ or −
‖	F.P.	24/7	114p	105p	Anglo Utd. Cnv. Red. Prf.	109p	+1
100	F.P.	—	132p	109p	Asda Prop. 5¼% Cnv. Cum. Red Prf. 2012	132p	+2
100p	30p	—	33½p	30½p	Beazer(C.H.) 8.67pc Cum. Red. Prf.	31p	......
‖	Nil	—	19pcm	12pcm	Crest Nich'lson 5½% Cnv Cum Red Prf £1	15pcm	−5
‖	F.P.	24/7	143p	127p	Dencora 6¼% Cum. Cnv. Red. Pf.	142p	......
‖	F.P.	7/8	126p	104p	Elliott (B) 7% Cnv.Cum.Red Prf.	123p	−2
§100	£10	10/9	9	7	Essex Water 9⅞% Red. Deb. '97-99	7	......
‖	Nil	—	29pcm	19pcm	Euro Home 5¼% Cnv Cum Red Prf 2006/11 £1	19pcm	−1
‡	25p	—	25p	24½p	Do. 8⅞% Cum. Red. Prf 2001/05	24½p	......
§	£50	11/9	50¼	46⅝	Govett Strategic Inv Tst 9⅞% Deb 2017	46⅝	−⅛
¶¶	F.P.	10/8	37p	37p	Grahams Rintoul I.T. Pfd. 20p	37p	......
100½	£10	—	10	10	Lee Valley Wtr. 7⅛% Red. Prf. 1997/98	10	......
‖	Nil	—	8¼pm	7¼pm	Lon. Shop Prop. 7% Cnv. Uns Ln 2001/06	7¼pm	−½
§98.471	£30¼	22/7	30⅞	27¾	Lynton Prop & Rev 10¼% 1st Mtg Deb 2017	28	+¼
‖	Nil	26/8	16pcm	10pcm	Magnet&S'thernS 6.25%CnvCumRedPrf2012	10pcm	−1
§100	£10	16/9	10	7	Mid Kent Water 9⅞% Red. Deb. '97-99	10	......
—	F.P.	—	100⅛	99⅞	Nationwide 8¾ pc Bds 20/6/88	100	......
—	F.P.	—	99⅞	99⅞	Do. 9⅝% Bds. 11/7/88	99⅞	......
—	£25	11/11	25½	20¼	North Housing Assoc. 8¾% Gtd.Ln.2037	20¼	......
—	F.P.	—	270p	258p	Do. Zero Corp. Ln. 2027	262p	......
§95.221	£25	2/10	26	20¼	Peachey Property 9½% 1st Mt.Deb.2016	20⅝	+⅛
¶¶	F.P.	—	133p	121p	Rivlin 5¼pc (Net) Cnv. Cum. Red. Prf.	123p	......
¶¶	F.P.	—	145p	115p	Smith New Court Cnv Cum Red Prf 50p.	144p	......
§101.75	£10	—	10½	10	Sunderland & S Sh Wtr 7⅛% Red Prf '97-99	10	......
—	F.P.	—	151p	110p	Unigroup 7½% Cum. Cnv. Red Prf.	151p	+2
—	£10	24/9	12½	10	Wrexham&E.Den.Wtr 7⅛%Red.Prf.96/98	10	......

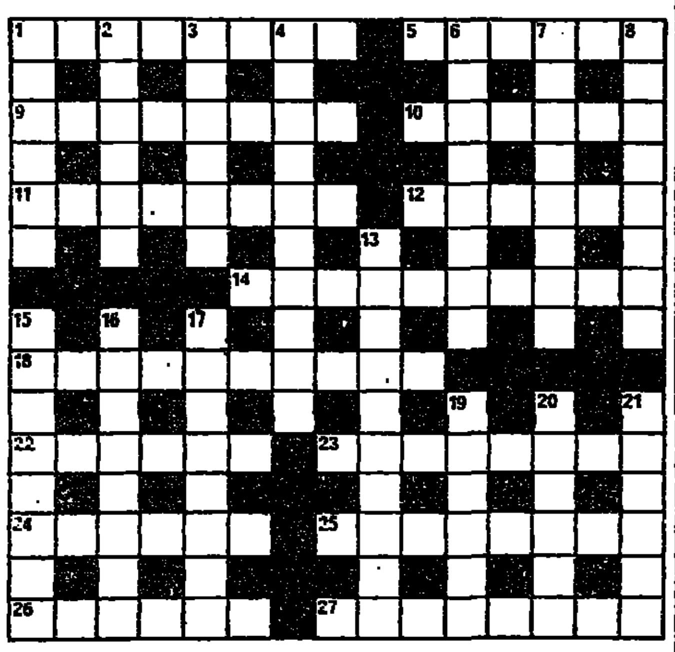
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price p	+or −
200	Nil	—	190pm	158pm	Copson (F) 5p.	158pm	......
¶¶	Nil	—	74pm	38pm	ERA Group 5p.	66pm	−5
20	Nil	18/8	18¾pm	12¼pm	Eagle Trust 2½p	18¼pm	......
5	Nil	20/8	51pm	23pm	♣Entertainment Prod 5p.	38pm	......
210	Nil	—	95pm	80pm	Euro. Home Prods. 5p	80pm	−1
320	Nil	7/9	45pm	15pm	Frogmore Estates 50p.	20pm	+5
33	Nil	24/8	40pm	28pm	Helene of London 10p.	30pm	......
120	Nil	24/8	35pm	26pm	♣Hughes Food 5p	26pm	−4
500	Nil	—	70pm	58pm	Joseph (Leopold) £1	58pm	......
65	Nil	24/7	35pm	16pm	Julliana's Hldgs. 2p	31pm	......
140	Nil	4/9	46pm	23pm	♣Laidlaw Thomson	46pm	+2
45	Nil	24/9	29pm	13pm	Utd.Guarantee 5p	14pm	−1
875	Nil	5/8	40pm	3pm	WPP Group 10p	3pm	−7

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. q Earnings based on preliminary figures. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ♣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ‡ Placing and offer for sale price. * Third Market † 10 Tranwood Rights & 3 Wrrts. to sub for 1 new Tranwood @ 40.

FT CROSSWORD PUZZLE No. 6,388

TANTALUS



ACROSS

1 Ligation employed in form of printing (8)
5 Irishman right to look back at military detachment (6)
9 A cigar—that's ideal love! (8)
10 Arachnid sometimes appears on snooker table (6)
11 Bird finds Communist's dish of pastry (8)
12 Way to scrape side of vessel (6)
14 Less notice needed to make these choices? (10)
18 Being astute with cash, obtain excessive damages (5-5)
22 Fashionable in this place to remain firm (6)
23 Tax returned to bread winner we hear—a publican (8)
24 Order a lager—it adds flavour (6)
25 Wise men come back in fast time for bond of union (8)
26 Not odd to follow the Spanish number (6)
27 Upset, I turned to run from gatecrasher (8)

DOWN

1 Mean to bring in (6)
2 I go in to deal but get a harangue (6)
3 Welcomes tearfully in Scotland? (6)
4 Bury iron right? About to get protein (10)
6 Remove member (8)
7 It provides heat when I tar road that's damaged (8)
8 Big ship heading east is where to see generosity (8)
13 Engineers on diplomatic mission end up with demolition (10)
15 Head of history for example (8)
16 Money, nothing more will provide this fabric (8)
17 Look after leading performer and daydream (8-4)
19 Go to mend (6)
20 Certainly at home their is action! (6)
21 Author shows hesitation after seeing legal document (6)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

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FT UNIT TRUST INFORMATION SERVICE

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance Co (UK)
St George's Way, Stevenage 0438 356101

Managed	451.4	475.2	...	—
Property	281.7	296.5	...	—
Equity	581.5	612.1	...	—
Gilt Edged	361.9	380.9	...	—
Deposit	204.7	215.5	...	—
Investment	248.0	261.4	...	—
International	420.3	442.4	...	—

Pension Fund Prices

Managed Init.	384.5	...	—
Do. Accum.	409.8	...	—
Property Init.	284.2	...	—
Do. Accum.	299.0	...	—
Equity Init.	491.3	...	—
Do. Accum.	551.8	...	—
Gilt-Edged Init.	235.6	...	—
Do. Accum.	288.5	...	—
Guaranteed Init.	158.0	...	—
Do. Accum.	193.6	...	—
International Init.	903.8	...	—
Do. Accum.	616.5	...	—
Index Lk. Gilt Init.	139.1	...	—
Do. Accum.	170.2	...	—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property	301.9	+0.0	—
Property Pens.	398.7	+0.0	—
Equity	296.8	-0.3	—
Equity Pens.	937.8	+0.3	—
Money Market	308.6	+1.2	—
Money Mkt. Pens.	563.7	+2.1	—
Deposit	237.0	+0.1	—
Deposit Pens.	377.3	+0.1	—
Managed	301.0	-1.4	—
Managed Pens.	581.6	-3.5	—
Intl. Equity	349.5	-1.6	—
Do. Pens.	564.4	-3.4	—
Intl. Managed	321.5	-1.4	—
Do. Pens.	476.6	-2.7	—
North American	132.2	-1.0	—
Do. Pens.	151.5	-1.7	—
Far East	398.0	+0.9	—
Do. Pens.	420.0	+1.3	—
Intnl. Currency	174.3	+0.0	—
Do. Pens.	227.7	+0.1	—
Index Linked	133.9	-0.2	—
S & C Managed Fd	145.2	-0.4	—
S & C Pens. Mngd Fd	118.2	-0.4	—

National Provident Inst.—Contd.

Far East Initial	479.5	504.8	+10.5	—
Far East	573.5	603.7	+12.6	—
Prop. Initial	140.5	147.9	+0.1	—
Prop.	168.1	177.0	+0.2	—
Fixed Int. Initial	187.8	197.7	+0.4	—
Fixed Int.	224.7	236.6	+0.5	—
Indexed Gilt Initial	104.4	109.9	+0.3	—
Indexed Gilt	123.6	130.2	+0.3	—
Deposit Initial	134.7	141.8	+0.1	—
Deposit	162.7	171.3	...	—

NPI Pensions Management Ltd

Managed Fund	952.2	969.2	...	—

Prices July 1. Next dealing August 3.

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 3JS 0603 683986

NUAM Funds

Managed Fund	57.9	61.0	+0.3	—
Stock Market Mngd Fund	59.6	62.8	+0.4	—
Equity Fund	65.8	69.3	+0.4	—
International Fund	54.5	57.4	+0.3	—
European Fund	57.6	60.7	+0.2	—
North American Fund	50.9	53.6	-0.1	—
Pacific Fund	62.3	65.6	+1.4	—
Property Fund	50.8	53.5	+0.1	—
Fixed Interest Funds	49.7	52.4	...	—
Index linked Sec Fund	46.2	48.7	+0.1	—
Deposit Fund	50.8	53.5	...	—

NUAM Retirement Plans

Mixed Fund	62.3	65.6	-0.3	—
UK Ordinary Share	76.0	80.1	-0.3	—
International Fund	55.6	58.6	-0.1	—
Property Fund	52.7	55.5	...	—
Fixed Interest Fund	51.5	54.3	+0.2	—
Index Linked Sec Fund	46.3	48.8	...	—
Deposit Fund	52.8	55.6	...	—

NUAM (MF)

Managed Fund	793.7	835.5	+4.2	—
Equity Fund	1798.2	1850.8	+14.5	—
Property Fund	315.6	332.3	...	—
Fixed Interest Fund	366.7	386.0	+0.4	—
Deposit Fund	207.4	218.4	+0.1	—
International Fund	141.3	148.8	+0.6	—
Index Linked Sec Fund	46.3	48.8	+0.1	—

Norwich Union Life Insurance Soc.
PO Box 4, Norwich NR1 3NG 0603 622200
Pensionmaster* & Unit-Linked Plan*

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

MANAGEMENT SERVICES

[illegible]

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FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)					
3May 3Nov	Treas. 12pc 1987	100 3/32	27.3	11.92	9.08
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	99 5/16	19.6	7.77	8.20
10Nov 10May	Exch 10½pc '88	100	3.4	10.42	9.37
14Dec 14Jun	Treas 9¾pc Cv '88	100	8.5	9.72	9.36
1Jan 1Jul	Transport 3pc '78-88	96	26.5	3.10	6.64
25 Apr 25 Oct	Treas. 9½pc '88	100	19.3	9.49	9.33
22 Aug 22 Feb	Treas 11½pc 1989	103	16.1	11.15	9.31
18 Oct 18 Apr	Treas 9½pc Cnv 1989	100	12.9	9.47	9.29
15Nov 15May	Treas 3pc 1989	94	8.4	3.18	6.38
14Dec 14Jun	Treas 10½pc 1989	101	8.5	10.34	9.34
1Feb 1Aug	Exch 10pc 1989	101	25.6	9.88	9.33
29 Mar 29 Sep	Exch 11pc 1989	103	20.2	10.66	9.31
15 Apr 15 Oct	Treas 5pc 1986-89	95	9.3	5.27	7.49
15 May 15 Nov	Exch 10¼pcCv '89	103	8.4	9.92	8.59
15 Jul 15 Jan	Treas 13pc 1990‡‡	108	8.6	12.04	9.26
12 Aug 12 Feb	Exch 11pc 1990‡‡	103	16.7	10.61	9.31
22 Sep 22 Mar	Exch. 12½pc 1990	107	13.2	11.66	9.35
8 Nov 8 May	Treas. 3pc 1990	91	1.4	3.30	6.61
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	98	11.5	8.40	8.93
25 Apr 25 Oct	Treas. 10pcCv 1990	101	19.3	9.84	9.37
22 May 22 Nov	Exch 2½pc 1990	88	15.4	2.82	6.36
10 July 10 Jan	Treas 11¾pc 1991	107	8.6	10.99	9.34
5Oct 5Apr	Funding 5¾pc '87-91‡‡	92	2.3	6.18	7.97
13 Nov 13 May	Treas. 3pc 1991	88	6.4	3.39	6.48
12Jan 12July	Treas 10pc Cv '91 ‡‡	104	5.6	9.63	8.81
25Apr 25Oct	Exch. 11pc 1991	105	19.3	10.43	9.40
—	Treas. 8pc 1991 (20pd)●	18	—	8.29	8.78
22Jly 22Jan	Treas 12¾pc 1992‡‡	112	15.6	11.37	9.30
21Aug 21Feb	Treas 10pc 1992	102	15.1	9.75	9.29
13Oct 13Apr	Treas. 8pc 1992 ‡‡	95	—	8.15	8.47
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	104	31.3	10.05	9.29
—	Treas. 3pc 1992	85	—	3.50	6.46
Five to Fifteen Years					
25 Feb 25 Aug	Exch. 12¼pc '92	111	20.7	11.01	9.40
22Mar 22Sep	Exch 13½pc 1992	116	13.2	11.64	9.48
15Oct 15Apr	Treas 10pc 1993‡‡	102	9.3	9.74	9.38
14Jan 14Jul	Treas 12½pc 1993‡‡	113	8.6	11.00	9.45
15Mar 15Sep	Funding 6pc 1993‡‡	90	6.2	6.59	7.86
23May 23Nov	Treas 13¾pc 1993‡‡	119	16.4	11.49	9.51
1 Sept 1 Mar	Treas 14½pc 1994‡‡	124	23.1	11.69	9.50
27Oct 27Apr	Exch 13½pc 1994 ‡‡	119	23.3	11.36	9.61
9Jan 9Dec	Treas. 10pc Ln. 1994‡‡	103	5.5	9.71	9.39
22Feb 22Aug	Exch. 12½pc 1994	114	16.1	10.93	9.63
17May 17Nov	Treas 9pc 1994‡‡	98	10.4	9.11	9.21
25Jul 25Jan	Treas 12pc 1995	112	18.6	10.67	9.62
1Nov 1May	Exch 3pc Gas 90-95	82	25.3	3.71	6.14
21Jan 21Jul	Exch. 10¼pc 1995	103	15.6	9.87	9.55
15May 15Nov	Treas 12¾pc 1995‡‡	117	8.4	10.84	9.60
22Jly 22Jan	Treas. 14pc '96	124	15.6	11.28	9.73
15Sep 15Mar	Treas. 9pc 1992-96‡‡	97	6.2	9.19	9.34
3Nov 3May	Treas 15¼pc 1996‡‡	132	27.3	11.53	9.68
15Nov 15May	Exch 13¼pc 1996‡‡	121	8.4	10.93	9.60
1Apr 1Oct	Redemption 3pc 1986-96	85	23.2	3.48	4.58
15May 15Nov	Conversion 10pc 1996	102	8.4	9.75	9.56
22Jul 22Jan	Treas 13¼pc 1997‡‡	121	15.6	10.87	9.66
21Aug 21Feb	Exch 10½pc 1997	105	15.1	9.94	9.59
1Mar 1Sep	Treas 8¾pc 1997‡‡	95	23.1	9.16	9.43
1 Mar 1 Sep	Treas. 8¾pc '97 'B' ‡‡	95	—	8.75	8.75
27Apr 27Oct	Exch 15pc 1997	132	23.3	11.31	9.85
19 Jul 19 Jan	Exch. 9¾pc 1998	101	12.6	9.65	9.57
1Nov 1May	Treas 6¾pc 1995-98‡‡	84	25.3	8.04	9.11
30Mar 30Sep	Treas. 15½pc '98‡‡	138	23.2	11.29	9.80
20May 20Nov	Exch. 12pc 1998	115	13.4	10.38	9.68
15Jul 15Jan	Treas 9½pc 1999‡‡	100	8.6	9.44	9.40
26Sep 26Mar	Exch. 12¼pc 1999	117	17.2	10.41	9.67
19Nov 19May	Treas. 10½pc 1999	106	13.4	9.85	9.54
22May 22Nov	Conversion 10¼pc 1999	104	15.4	9.77	9.55
28July 28Jan	Tr 8½pc Ln.2000‡‡	93	—	8.92	9.14
3Sept 3Mar	Conversion 9pc 2000‡‡	97	26.1	9.27	9.38
14Jan 14Jul	Treas. 13pc 2000	124	8.6	10.47	9.67
26 Aug 26 Feb	Treas 10pc 2001	104	20.7	9.61	9.47
22Nov 22May	Treas. 14pc '98-01	127	15.4	10.98	9.80
10Feb 10Aug	Conversion 9¾pc 2001	102	6.7	9.53	9.44
22Jul 22Jan	Exch. 12pc '99-02	115	15.6	10.36	9.68
11 Oct 11 Apr	Conversion 10pc 2002	104	5.3	9.57	9.41
Over Fifteen Years					
27 Feb 27 Aug	Treas 9¾pc 2002	102	21.1	9.50	9.41
19May 19Nov	Exch. 9pc 2002	97	—	9.27	9.35
25Jan 25Jul	Treas. 13¾pc 2000-03	129	18.6	10.64	9.72

BRITISH FUNDS—Contd

Interest Due	Stock		Price £	Last xd	Yield Int.	Yield Red.
Index-Linked		(b)			(1)	(2)
30 Sep 30 Mar	Treas. 2pc '88	(297.1)	131	23.2	—	1.66
25 Jul 25 Jan	Do. 2pc '90	(333.9)	116	18.6	0.67	2.09
23Sep 23Mar	Do. 2pc '92‡‡	(385.8)	97	—	2.06	2.79
16Mar 16Sep	Do. 2pc '96	(267.9)	126	9.2	3.25	3.73
24Mar 24Sep	Do 2½pc '01	(308.8)	105	16.2	3.47	4.04
20Nov 20May	Do. 2½pc '03	(310.7)	103	13.4	3.43	3.99
19Jan 19Jly	Do. 2pc '06	(274.1)	106	12.6	3.51	3.92
20Nov 20May	Do. 2½pc '09	(310.7)	100	13.4	3.45	3.84
23Feb 23Aug	Do. 2½pc '11	(294.1)	105	19.1	3.57	3.78
16Feb 16Aug	Do. 2½pc '13	(351.9)	88	13.7	3.50	3.73
26Jan 26Jly	Do. 2½pc '16	(322.0)	96	19.6	3.28	3.54
16Oct 16Apr	Do. 2½pc '20	(327.3)	94	10.3	3.33	3.59
17Jan 17July	Do. 2½pc '24 ‡‡	(385.3)	80	10.6	3.28	3.51

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for November 1986: 391.70 and for June 1987: 101.9 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
4 Jan 4 Jul	African Dv Bk 11¼Ln 2010	105	4.6	10.56	10.47
24Mar 24Sep	Asian Dev Bk 10¼pcLn2009	102	23.2	10.05	10.02
28Jan 28July	Australia 13½pc 2010	127	29.6	10.56	10.31
26Apr 26Oct	Do. 11½pcLn2015	110	27.3	10.28	10.21
23Mar 23Sep	Euro Inv Bk 11pc Ln 2002	108	23.2	10.15	9.91
22Mar 22Nov	Do. 10¼pc2004	103	22.4	10.04	9.93
8Jan 8Jul	Int-Am Dev Bk 12½pc 2003	118	4.6	10.56	10.30
15 May 15 Nov	Do. 9¾pcLn 2015	97	15.4	10.05	10.05
31 Jan 31 Jul	Mlysia 10¼pcLn 2009	93	2.1	11.56	11.63
3Jan 3Jul	Malaysia 12¼pc '88	100	3.6	12.25	12.15
4May 4Nov	NZ 11¼pc 2008	107	6.4	10.48	10.37

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Red. Yield
1Apr 1Oct	Greek 7pc Ass.	53	1.5	3.50	f6.60
1Feb 1Aug	Do. 6pc 28 Stb. Ass.	50	2.2	3	f6.00
1Apr 1Oct	Do 4pc Mixed Ass.	47	1.4	2	f4.26
1May 1Nov	Hung. '24 Ass	65	5'85	2.75	f4.23
31May 30Nov	Hydro Quebec 15pc 2011	137	3.6	15.00	10.61
30Jun 31Dec	Iceland 6½pc '83-88	90	5.6	—	—
31Jan 31Jly	Do. 14½pc Ln. 2016	128	8.1	14.50	11.16
1Mar 1Sept	Ireland 9¾pc '91-96	99	30.1	9.75	9.83
30June 31Dec	Japan 6% '83-88	85	30.6	—	—

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories‡	38	12.1	$1.00	—	1.6
—	Ahmanson (H.F.)	12	11.2	88c	—	4.5
F My Ag N	Alcoa $1	36	28.4	$1.20	—	2.0
—	♦Allegheny & W $0.01	17	—			
—	Amax $1	15	5'85	—	—	—
Nv Mr Jn Ag	Amdahl 5c	22	5.11	20c	—	0.5
Mr.Jn.Se.De.	Amer. Cyanamid $5	30	5.5	$1.90	—	3.8
Fb My Ag Nv	Amer. Express $0.60	21	12.1	$1.44	—	4.2
Fb My Au Nv	Amer. Medical Int. $1	12	10.4	†72c	—	3.6
Fb My Ag Nv	American T. & T. $1	19	25.9	$1.20	—	3.9
Fb My Ag Nv	Ameritech $1	51	29.12	n$4.72	—	5.6
—	Amfac‡	20	11'84	—	—	—
—	Anheuser-Busch $1	21	—	$2.00	—	5.7
—	♦AridTech‡	80p	—	—	—	—
—	BankAmerica $1	6	11'85	—	—	—
Ap Jly Oc Jan	Bankers N.Y. $10	29	26.3	$1.66	—	3.5
Ja Ap Jy Oct	BASIX Corp.	374p	18.6	12c	—	2.0
My Au N Fb	Bell Atlantic $1	48	25.9	$3.84	—	5.8
—	BellSouth Corp.	23	7.7	$2.04	—	5.4
Mar Jun S D	♦Bethlehem Steel $8	11	4.11	—	—	—
—	Bio-Rad Labs. Inc. 'A'	14	—	—	—	—
Oc Ja Ap Jy	Bowater Inc.	21	5.6	80c	—	2.3
Ja Ap Jly O	Browning-Ferris 16⅔c	18	17.3	h40c	—	1.3
F My Au N	Brunswick	15	21.7	60c	—	1.2
Jan Ap Jly O	CPC Intnl. 25c	32	25.9	◆$1.24	—	2.3

LONDON SHARE SERVICE

AMERICANS—Continued

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INSURANCES

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LONDON SHARE SERVICE

INSURANCES—Continued

LEISURE

MOTORS

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

FINANCE, LAND—Cont.

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

THIRD MARKET

Stock	Price	Last xd	Div Net	C'vr	Gr's	P/E
Andaman Res. 10p	106	—	—	—	—	—
Ardmore Pet. 'A'	28	—	—	—	—	—
Catalyst Comms. 5p	84	—	—	—	—	34.9
Chelsea Artisans 5p	178	—	—	—	—	23.9
Comac Group 5p	163	—	—	—	—	—
Corton Beach 10p	131	1.6	0.4	ϕ	0.4	ϕ
Crown Eyeglass 5p	170	—	—	—	—	—
Edenspring Investment	268	—	—	—	—	—
Eglinton Oil Ir.5p	32	—	—	—	—	—
Do. Warrants	21	—	—	—	—	—
Far East Res. 10p	178	—	—	—	—	—
Publishing Hldgs.5p	76	—	—	—	—	44.0
Theme Holdings	71	27.4	1.0	ϕ	1.9	ϕ
Unit Group	140#	—	R4.6	2.5	4.5	10.0

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	91	.....	Fin. 13% 97/02	£105¼	-3¼
Craig & Rose £1	£20	.....	Arnotts	380	.....
Finlay Pkg. 5p	126	.....	CPI Hldgs	85	+5
Holt (Jos) 25p	1003	.....	Carroll Inds.	165	-3
IoM Stm. £1	146	.....	Dublin Gas	18	.....
IRISH			Hall (R. & H.)	140	+5
			Heiton Hldgs.	50	.....
Fund 11¼% 1988	£100½	-¼	Irish Ropes	190	.....
Nat. 9¾% 84/89	£97¾	+8½	Unidare	430	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	40	NEI	12
Amstrad	20	Nat West Bk	65
BAT	55	P & O Dfd	65
BOC Grp	45	Plessey	22
BSR	17	Polly Peck	28
BTR	30	Racal Elect	24
Babcock	19	RHM	30
Barclays	52	Rank Org Ord	70
Beecham	50	Reed Intnl	45
Blue Circle	50	STC	30
Boots	25	Sears	15
Bowaters	50	TI	34
Brit Aerospace	55	TSB	10
Brit. Telecom	32	Tesco	55
Burton Ord	35	Thorn EMI	70
Cadburys	22	Trust Houses	24
Charter Cons.	40	Turner Newall	28
Comm Union	30	Unilever	300
Courtaulds	45	Vickers	20
FNFC	30	Wellcome	42
Gen Accident	95	Property	
GEC	24	Brit Land	25
Glaxo	200	Land Securities	45
Grand Met	55	MEPC	42
GUS 'A'	175	Peachey	45
Guardian	90	Oils	
GKN	30	Brit Petroleum	32
Hanson Tst.	15	Britoil	32
Hawker Sidd	50	Burmah Oil	45
ICI	125	Charterhall	6
Jaguar	52	Premier	11
Ladbroke	40	Shell	110
Legal & Gen	32	Tricentrol	11
Lex Service	45	Ultramar	24
Lloyds Bank	50	Mines	
Lucas Inds	62		
Marks & Spencer	22	Cons Gold	95
Midland Bk	55	Lonrho	26
Morgan Grenfell	35	Rio T Zinc	90

A selection of Options traded is given on the London Stock Exchange Report Page.

CONSTRUCTION CONTRACTS

Developing Broadgate

MATTHEW HALL MECHANICAL & ELECTRICAL ENGINEERS has been awarded a contract worth over £23m for the design and installation of mechanical, electrical, fire engineering and cable management services in phase 3 of the Broadgate Project, London, EC2, part of which is being developed by Rosehaugh Stanhope Development for the Union Bank of Switzerland.

Broadgate phase 3 is an office comprising two interconnecting buildings that will provide some 390,000 sq ft of net usable space on eight floors including a lower ground floor and basement.

Matthew Hall will be responsible for the detailed design and installation of the very specialised services requirements of the client in the fitting-out stages. It will be one of the largest design and construct contracts ever undertaken by the company.

The company will also provide cable management co-ordination for the voice and data communication systems installation including local area network, dealer systems, PABX, telephones. These will utilise fibre optic cabling and standard coaxial and twin pair type cables. The services wil be monitored by a microprocessor-based building management system that will *also give full control of the air-conditioned environment.*

A considerable proportion of the new building area will be devoted to financial trading and support areas. Two floors, comprising some 100,000 sq ft, will be fitted out to provide up to *1,200 dealer desk* positions, the largest financial trading area currently being constructed in the UK. The trading areas will be environmentally self-supporting with independent mechanical and electrical services systems.

The building is adjacent to Liverpool Street Station and forms part of the overall redevelopment and modernisation of the station. It will incorporate a new platform concourse at lower ground floor level and *a bus depot at ground level.* Work commences in September 1987 and is scheduled for completion in one year.

Bypass projects

Contracts awarded to A. F. BUDGE (CONTRACTORS), Retford, include the A42 Measham and Ashby bypass (£31m), the A46 Coventry eastern bypass (£16.9m) and the A10 Melbourn bypass (£3.6m), all for the Department of Transport. The mining division has won British Coal Opencast Executive contracts valued at over £20m to cover sites at Streets Lane, Staffordshire, and Bentinck South, Nottinghamshire. Total coal recovery will exceed 1.6m tonnes, with both sites being progressively restored and re*turned to agriculture.*

★

TILBURY CONSTRUCTION has been awarded contracts totalling almost £10m, covering both civil engineering and construction projects, throughout the UK. These include a £1.17m extension to a reinforced concrete underpass at Gatwick Airport, complete with lighting, signs, landscaping and roadworks. A contract, worth almost £1m, is being carried out at Newmarket sewage treatment works for the Cambridge division of Anglian Water. This covers the construction of tanks, modifications to tanks, installation of pumping mains, and pipelines and ancillary works. In Barnstaple, Devon, Tilbury is constructing an engineering repair building at RAF Chivenor for the Property Services Agency, under a contract valued at over £650,000.

★

COSTAIN CIVIL ENGINEERING has been awarded a £4.75m contract by the Transport Secretary for the sixth and final phase of the Rochester Way relief road construction project in south-east London. The contract includes one major structure—an underpass carrying the dual carriageway beneath a new railway bridge at Well Hall—and entails completion of the spur linking Kidbrooke Park Road with the Kidbrooke intersection, and the tie-in with the dual carriageway at Falconwood. Installation of a highway communications system, road signing and lighting, and completion of remaining road works will bring the project to a conclusion. The contract will take 37 weeks to provide full traffic access early in 1988.

Council housing in Horsham

WIMPEY CONSTRUCTION UK has been awarded local authority contracts totalling more than *£6m. Two design and build* contracts have been awarded by the Horsham District Council. The first is a £4.15m contract for 66 homes and the refurbishment of 139 homes in Littlehaven Lane, Roffey, Horsham. The new flats and houses will be of traditional brick/block construction, and roads, drainage and landscaping are included in the contract. The refurbishment element involves new bathrooms and kitchen in a ground floor extension or conversion of the third bedroom. The project is due for completion in May 1989.

Horsham District Council has also awarded Wimpey a £850,000 contract for phase 2 of the Warren Hamlet development at The Green, Sullington, comprising 28 homes. Of timber frame construction, the development will form a short terrace, as well as semi-detached houses, and will include roads, footpaths and landscaping. It is due for completion in January 1988.

Elsewhere in Horsham, the company is to construct 1,200 metres of flexible pavement and two in situ reinforced concrete bridges with associated drainage, fencing, signing and lighting at Farthings Hill, under a £1.98m contract awarded by the West Sussex County Council. The council is to be responsible for the quantity surveying and consulting engineering services and the contract is scheduled to be completed in November next year.

Overlooking the River Thames

SIR ROBERT McALPINE & SONS has been awarded a £25m contract to build Invicta Plaza, a 10-storey office block next to the River Thames at Blackfriars Bridge, for Workyard. The building, 115 metres long and averaging 25 metres wide, of steel-frame construction with curtain walling, will provide a total floor area of 22,500m sq metres. Ancillary work will include construction of a river wall and city steps. Invicta Plaza has been pre-let. Work has begun, for completion in February 1989.

APPOINTMENTS

Deputy chairman at Britannia Arrow

Lord Stevens of Ludgate has been appointed a deputy chairman of BRITANNIA ARROW HOLDINGS. Mr Nicholas Johnson has been appointed to the board and Sir David Nicholson has been appointed a non-executive director.

★

SYSTEMS UNION has created a new division specifically to target sales of its SunSystems product range to the Middle East. Heading up the division is Mr Radwan Khader, who recently joined from the Kuwait-based Pan Arab Computer Company (PACC).

★

ATLANTIC COMPUTERS has appointed Mr Bill Tadden as managing director of Hamilton Rentals, recently acquired by Atlantic. He joins from Computer Systems Development (CSD), the UK operating company of Atlantic's DEC systems division.

★

Mr Peter G. Foster, formerly financial controller of the LEE GROUP, has been appointed finance director in succession to Mr David Mindel, who has now been appointed director, Corporate development.

★

Mr John Blaney, Ogilvy and Mather's worldwide management supervisor on Unilever, has been elected a director of the OGILVY AND MATHER worldwide board. Currently based in Ogilvy and Mather's London office, Mr Blaney joined the agency's New York office in 1964. He became a senior vice president in 1975 and a group director in 1980. In 1982 he assumed the role of general manager of the New York office.

★

The newly formed BRITISH SOFT DRINKS ASSOCIATION has appointed Mr Allan Sensicle as its first chief executive. He was chief executive of the Institute of Measurement and Control.

★

At G.T. MANAGEMENT (UK) Mrs Kay Elizabeth Bradshaw, Mr Nicholas John Train, Mr Stephen John Hazell-Smith and Mr Robert Alexander Stirling have been appointed directors.

★

Mr Brian Jones has been appointed a director of the Manchester-based CO-OPERATIVE BANK with responsibility for the corporate banking sector. Mr Jones joined the Co-operative Bank in 1972, became an assistant general manager in 1976 and general manager in 1986.

★

Mr Kevin Burman, manager of IM-Part Investment Systems, has been appointed a director of CLARKE AND TILLEY

★

BERRY BROS & RUDD has appointed two director to its board. Mr Jack McGowan becomes export director for "Cutty Sark" world-wide and Mr Nicholas Wright becomes home trade director with responsibility for the retail wine and spirit side of the business in the UK.

★

ASSOCIATED HEAT SERVICES has appointed Mr David Penny as director, northern region. He was managing director of Birtley Engineering and a main board director of NEI. Mr Ralph Cohen becomes director of corporate development, which is an extension of his duties of finance director. Mr Kerry McHarg is promoted from Scottish area manager to director for Scotland and Northern Ireland. Also promoted is Mr David Seragg to director of engineering, with responsibility for overseeing all AHS safety and operational procedures.

★

Mr B. Hadley has been appointed operations director of IMI TITANIUM, a subsidiary of IMI. In this newly-created position he is responsible for the production of titanium and zirconium, semi-finished products and superconductors. He joins *from the William Cook Steel* castings group of Sheffield.

★

SCOTTISH FINANCIAL ENTERPRISE has co-opted a new member on to its board. He is Mr Bernard Solomons, chairman of Parsons & Co, founder-member of Allied Provincial Securities, the independent private client stockbroking firm of which Mr Solomons is also chief executive.

★

BLACK ARROW FINANCE, *the leasing subsidiary of Black* Arrow Group, has appointed Mr Godfrey Brew as managing director. Mr Gerald Heyburn has been made assistant company secretary and compliance officer, in addition to his present role as group accountant.

DIARY DATES

FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

COMPANY MEETINGS—
TODAY

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

TOMORROW

WEDNESDAY JULY 29

THURSDAY JULY 30

FRIDAY JULY 31

SATURDAY AUGUST 1

BUSINESS DIARY

Trade fairs and exhibitions: UK

July 28-August 2
British Music Fair (01-385 1200) Olympia

August 2-5
BFM Furniture Show (01-724 0851) G-Mex Centre, Manchester

August 6-9
Connoisseur and Collectors' Fair of Antiques and Memorabilia (021-780 4171) NEC, Birmingham

August 23-25
International Craft and Hobby Fair (04252 72711) Wembley Conference Centre

August 30-September 1
Scottish Industry and Commerce Trade Fair (0302 767073) Scottish Exhn Centre, Glasgow

September 2-4
IMB System User Show and Conference (01-608 1161) Olympia

September 4-6
Money Show (0895 58431) Aberdeen

September 6-10
Autumn Gifts Fair (01-385 1200) Olympia

September 8-11
Offshore Europe Exhibition and Conference (01-549 5831) Aberdeen

September 8-10
Chelsea Antiques Fair (04447 2514) Old Town Hall, Chelsea

September 14-18
International Welding, Cutting and Metal Fabrication Exhibition—WELDEX (021-705 6707) NEC, Birmingham

September 20
Antiques Fair (01-883 7061) Alexandra Palace

September 22-27
Personal Computer World Show (01-486 1951) Olympia

September 26-October 1
Automotive Trade Show (01-235 7000) Earls Court

Overseas

Current
Electronic Products Exhibition—INTERNECON (01-940 8777) (until July 27) Kuala Lumpur

August 11-14
Brazilian Summer Fashion Collection—BRASIL FASHION FAIR (01-499 0877) Rio de Janeiro

August 21-27
International Jewellery and Watches Exhibition—JEWELFAIR (01-464 4129) Singapore

August 25-26
International Autumn Fair (Consumer Goods) (01-734 0543) Frankfurt

August 28-September 3
International Post and Telecommunications Exhibition—SINO-POSTAL (01-891 0451) Shenzhen

September 2-6
Specialised Fair for Clocks, Watches and Jewellery—JUWELIA (01-877 4551) Vienna

September 6-9
International Exhibition of Sports Goods and Leisure Equipment (01-255 5566) Paris

September 6-12
International Autumn Fair (01-240 7015) Leipzig

September 8-13
International Computer Technology and Communication Equipment Exhibition—TELECOMP (01-486 1951) ... Beijing

September 14
International Industrial Maintenance and Cleaning, Municipal Refuse Disposal and Destruction etc Trade Fair (01-741 4437) Amsterdam

September 21-24
International Hotel and Catering Fair—IGAFA (01-486 1951) Munich

September 29-30
Display and Incentives Exhibition (Dublin 900600) Dublin

Business and Management Conferences

July 28-30
Microwave Association: Educating the educators (01-329 8226) Royal Holloway and Bedford College, Egham

July 29
Industrial Society: Profit related pay (01-839 4300) 3 Carlton House Terrace, SW1

August 10-12
Frost and Sullivan: Managing the data centre as a business (01-730 3438) London

September 7-8
IBC: Broadcast radio into the 90s (01-236 4080) London Press Centre, EC4

September 10-11
Financial Times: World Motor (01-621 1355) Frankfurt

September 10
Tolley Publishing Co.: Your company pension scheme — time for action (01-680 5682) London Press Centre, EC4

September 15-16
Euromoney: Short term and medium term financing alternatives (01-236 3288) St Regis Sheraton, New York

September 16
IRRG: Financial Services—today and tomorrow (01-236 2175) The Brewery, EC2

September 20-22
Metal Bulletin Conferences: Turkey's industrial minerals (01-330 4311) Istanbul

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

ITALY

1987 High	1987 Low	July 24	Price Lire
6950	3150	Banca Com'le	3283
715	590	Bastogi-IRBS	608.00
7155	5765	CIR	6010
3650	1910	Credito Italian	1950
17163	11644	Fiat	12100

SWEDEN

1987 High	1987 Low	July 24	Price Kroner
309	229	Skandia Intl.	241
137	104	Skan Enskilda	137
397	310	SKF	355
407	269	St. Kopparbergs	398
485	380	Svka Handelsbn	480
105.6	83	Swedish Match	104
360	261	Volvo B (Free)	360

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

OVER-THE-COUNTER Nasdaq national market, Closing prices July 24

Indices

NEW YORK — DOW JONES

	July 24	July 23	July 22	July 21	1987 High	1987 Low	Since compilation High	Since compilation Low
‡Industrials	2485.33	2471.94	2470.18	2467.95	2510.04 (17/7)	1927.31 (2/1)	2510.04 (17/7/87)	41.22 (2/7/32)
Home Bonds	88.21	88.23	88.28	88.52	95.51 (9/2)	87.07 (22/5)	(—)	(—)
Transport	1052.42	1047.55	1040.31	1032.93	1052.42 (24/7)	816.38 (2/1)	1052.42 (24/7/87)	12.32 (8/7/32)
Utilities	199.91	200.48	201.12	200.71	227.83 (22/1)	191.39 (20/5)	227.83 (22/1/87)	10.5 (8/4/32)

‡Day's High 2494.90 (2492.67) Low 2462.53 (2447.07)

STANDARD AND POOR'S

	July 24	July 23	July 22	July 21	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite‡	309.27	307.81	308.47	308.55	314.59 (17/7)	246.45 (2/1)	314.59 (17/7/87)	4.40 (1/6/32)
Industrials	361.92	360.02	360.94	361.33	368.33 (17/7)	274.58 (2/1)	368.33 (17/7/87)	3.62 (21/6/32)
Financials	29.26	29.27	29.30	29.11	31.51 (6/3)	25.97 (29/5)	31.51 (6/3/87)	8.64 (1/10/74)
NYSE Composite	173.70	173.03	173.45	173.59	179.77 (22/6)	141.01 (2/1)	179.77 (22/6/87)	4.46 (25/4/42)
Amex Mkt. value	347.45	346.62	348.17	349.39	353.45 (17/7)	267.49 (2/1)	353.45 (17/7/87)	29.31 (9/12/72)
NASDAQ OTC Comp	429.13	427.63	429.30	429.37	439.64 (20/3)	353.26 (2/1)	439.64 (20/3/87)	54.87 (3/10/72)

	July 17	July 10	June 26	year ago (approx.)
Dow Industrial Div. Yield	2.74	2.80	2.82	3.81
	July 23	July 16	July 9	year ago (approx.)
S and P Industrial Div. Yield	2.37	2.37	2.84	3.13
S and P P/E ratio	23.82	23.75	20.40	17.12

TRADING ACTIVITY † Volume

Millions	July 24	July 23	July 22
New York	158.390	163.925	175.885
Amex	16.704	11.551	12.560
OTC	(—)	153.365	156.229

NEW YORK	July 24	July 23	July 22
Issues Traded	1,996	1,960	1,965
Rises	837	616	674
Falls	708	922	854
Unchanged	451	422	437
New Highs	—	58	56
New Lows	—	30	25

CANADA

TORONTO

	July 24	July 23	July 22	July 21	1987 High	1987 Low
Metals & Minerals	3263.29	3233.90	3163.70	3160.70	3264.40 (16/7)	1988.2 (2/1)
Composite	3956.31	3946.00	3940.30	3953.60	3998.10 (16/7)	3067.8 (2/1)
MONTREAL Portfolio	1985.56	1974.62	1974.31	1987.38	2224.77 (16/7)	1534.3 (2/1)

	July 24	July 23	July 22	July 21	1987 High	1987 Low
AUSTRALIA						
All Ord (1/1/80)	1998.0	1985.3	1961.4	1973.3	1998.0 (24/7)	1486.7 (2/2)
Metals & Min'ls (1/1/80)	1280.5	1283.6	1244.2	1262.2	1287.5 (18/5)	729.1 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	213.42	215.42	224.13	223.22	290.60 (2/1)	182.21 (19/6)
BELGIUM						
Brussels SE (1/1/84)	5196.12	5114.38	5098.60	(c)	5156.12 (24/7)	3987.86 (9/1)
DENMARK						
Copenhagen SE (3/1/83)	—	203.18	203.05	203.39	217.57 (22/1)	189.64 (6/1)
FINLAND						
Unitas General (1975)	—	610.5	607.6	605.3	610.5 (23/7)	425.2 (5/1)
FRANCE						
CAC General (31/12/82)	414.0	408.60	404.50	407.50	460.4 (26/3)	392.0 (2/1)
Ind Tendance (31/12/86)	107.0	105.20	103.80	103.40	117.2 (26/3)	97.8 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	639.28	636.00	642.42	646.55	676.84 (6/1)	538.32 (19/3)
Commerzbank (1/12/53)	1935.0	1927.60	1952.2	1958.70	2048.3 (6/1)	1633.8 (19/3)
HONG KONG						
HangSeng Bank (31/7/64)	3343.60	3366.82	3,380.41	3353.78	3386.09 (20/7)	2449.88 (20/1)
ITALY						
Banca Com. Ital (1972)	679.92	687.94	699.08	698.49	767.34 (30/4)	668.45 (14/7)
JAPAN**						
Nikkei (16/5/49)	23942.94	23036.32	22,702.74	23,078.36	25929.42 (17/6)	18544.0 (13.1)
Tokyo SE New (4/1/68)	1999.35	1918.19	1888.27	1915.64	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP CBS Gen (1970)	316.90	316.10	319.80	319.50	320.60 (20/7)	257.7 (28/1)
ANP CBS Indust. (1970)	270.0	268.40	271.60	269.60	274.9 (5/1)	243.60 (11/6)
NORWAY						
Oslo SE (4/1/83)	460.90	460.57	459.29	459.38	460.57 (23/7)	361.98 (2/1)
SINGAPORE						
Straits Times (30/12/66)	1361.75	1373.56	1,385.87	1394.26	1398.04 (20/7)	889.08 (2/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	2369.0	2363.0	2346.0	2369.0 (23/7)	1786.0 (19/3)
JSE Indust (28/9/78)	—	2125.0	2118.0	2106.0	2124.0 (23/7)	1423.0 (2/1)
SPAIN						
Madrid SE (30/12/85)	264.16	262.70	262.01	263.07	264.39 (20/7)	202.89 (8/5)
SWEDEN						
Jacobson & P. (31/12/56)	2852.0	2840.90	2826.60	2848.73	2885.50 (17/7)	2111.39 (28/1)
SWITZERLAND						
Swiss Bank Cp. (31/12/58)	651.7	655.3	651.5	646.8	655.3 (23/7)	559.7 (25/2)
WORLD						
M.S.Capital Intl. (1/1/70)	(—)	450.50	447.0	450.5	480.30 (12/6)	361.3 (2/1)

**Saturday July 18: Nikkei Index: Closed.

Base values of all indices are 100 except Brussels SE—1,000 JSE Gold—255.7 JSE Industrials—264.3 and Australia, All Ordinary and Metals—500; NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Bear Stearns	3,869,600	16⅜	+⅛
Southern	3,591,800	24¼	−⅛
Dayton Hud.	2,919,800	52	+4⅜
Global Govt.	2,685,000	10	(—)
Union Carb.	2,416,200	27⅛	−¼
Ramada Inn.	1,754,200	9¼	+⅛
Texaco	1,711,900	47⅞	+⅞
Willms CP.	1,704,600	36⅞	+¼
Foster Whe	1,533,400	23¾	+½
ATT	1,425,000	30⅞	+⅛

Closing prices, July 24

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
35	20 1/8	AAR s	.50	1.6	21	84	31 1/2	30 3/4	31	-3/4
37	22	ADT	.92	2.8	19	1274	33 1/2	32	32 3/4	-1/2
30	16 3/4	AFG s	.16	.6	10	282	29	28 3/8	28 7/8	+3/8
22 3/8	6 3/8	AGS s			16	519	17 3/4	17	17 5/8	+5/8
11 1/2	6 3/4	AMCA				25	9 3/8	9 1/4	9 1/4	-1/4
9 3/8	4 7/8	AM Intl				552	7 1/8	7	7	
62 7/8	47 1/2	AMR			13	5388	61 1/4	59 7/8	61 1/8	+1 1/2
11 3/4	8	ARX s			12	42	10 5/8	10 1/2	10 5/8	
73 1/2	30 3/8	ASA	2a	3.0		699	65 7/8	64 1/2	65 5/8	+3/4
20	9 3/4	AVX		1.9	83	154	16 5/8	16	16 5/8	+1/8
67	41	AbtLab	1	1.6	25	2068	62 5/8	61 3/8	62 1/2	+7/8
26	24 1/2	Abitibi g				2	24 1/2	24 1/2	24 1/2	
28 3/4	16 5/8	AccoWs .44		1.5	26	881	28 3/4	28 5/8	28 5/8	
15 1/8	9	AcmeC .40		2.8	15	57	14 1/8	13 7/8	14 1/8	+3/8
8 3/8	6 1/8	AcmeE .32b		4.1	30	1	7 7/8	7 7/8	7 7/8	
23 7/8	19	AdaEx 3.42e		16.		36	21 7/8	21 3/4	21 3/4	+1/8
19 1/2	11 3/8	AdmMl s .24		1.6	11	13	14 7/8	14 5/8	14 5/8	-1/8
25 1/8	12 7/8	AdvSys.62t		2.7	17	171	23 5/8	23 1/4	23 1/4	-3/8
24 1/2	12 7/8	AMD				1633	17 3/8	17	17 3/8	+1/8
54 3/4	47	AMD pf	3	6.3		64	47 3/8	47 1/4	47 3/8	+1/8
10 3/4	5 1/4	Adobe				300	10 1/4	10 1/8	10 1/4	+1/8
20 1/2	13 3/4	Adob pf 1.84		9.6		10	19 1/4	18 1/8	19 1/4	+3/8
21 7/8	16 3/8	Adob pf 2.40		11		5	21	20 7/8	20 7/8	-1/8
15 5/8	10 3/8	Advest .12a		1.0	9	149	12 1/8	12	12 1/8	
69 1/4	53	AetnLf 2.76		4.8	9	1118	58 1/2	58	58	-3/8
53 3/8	51 1/8	AetL pf3.75e		7.2		40	51 3/4	51 3/4	51 3/4	+1/8
68 3/4	26 1/2	AflPb s .32		.5	20	224	65	64 3/4	64 3/4	-7/8
28 3/8	18 5/8	Ahmans.88		4.6	7	3975	19 3/8	19 1/8	19 1/4	
5 3/8	2 7/8	Aileen				25	3 7/8	3 3/4	3 3/4	
50 1/4	29 1/8	AirPrd	1	2.1	21	663	48 1/2	48 1/8	48 3/8	+3/8
[illegible]										

Continued on Page 31

NYSE COMPOSITE CLOSING PRICES

Continued from Page 30

X Y Z

81¼	48⅝	Xerox	3	4.0	18	6509	75¾	73⅜	74⅞	+¾
58¼	54¼	Xerox pf5.45		9.9		101	55⅜	55¼	55¼	+⅛
28⅞	21½	XTRA	.64	2.3		110	28	27½	27¾	+⅛
25⅞	25⅜	Xtra pf	1.94	7.5		3	25⅞	25⅞	25⅞	+⅛
27⅞	15	Yorkin			13	117	26¾	26¼	26¾	+¼
7¼	2¼	Zapata				577	6⅛	5⅞	6⅛	+⅛
36¾	20¾	Zayre	.40	1.3	18	5787	30¼	29⅜	30	+¼
14¾	9⅝	Zemex	.40	3.0	8	37	13½	13⅛	13⅛	
29¾	18⅞	ZenithE				3203	28½	27⅛	28⅝	+1⅛
13½	8	ZenLab				688	10⅛	9¾	9⅞	+⅛
19½	12⅝	Zero	.36	2.1	17	549	17¼	16⅞	17⅛	+⅛
28⅞	16⅜	Zurnin s			20	325	u29⅜	28⅜	28⅝	+1⅛
10⅜	8¾	Zweig n.85e		8.3		1485	10¼	10	10¼	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, July 24

OVER-THE-COUNTER

Nasdaq national market, Closing prices, July 24

Continued on Page 29

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Rate differentials have an increasing impact

BY COLIN MILLHAM

INTEREST RATE differentials moved towards the centre of attention last week, as the dollar weakened, and failed to respond to a larger than expected rise of 2.6 per cent in second quarter US Gross National Product growth.

Several reasons were suggested for the loss of confidence in the dollar, including its failure to break through technical resistance points against the yen and D-Mark.

But a major factor was that Japanese investment houses re-assessed the dollar as yield differentials between the US and Japan narrowed.

Nomura Research Institute recently suggested it requires a 5 percentage point differential in favour of US interest rates to hold the dollar at a peak of Y150. Until late last week the dollar traded steadily above Y150, but the yield differential has narrowed to around 4 points.

It had been rumoured for some time that the authorities in Tokyo were about to sanction a rise in Japan's long-term prime rate.

On Friday the three Japanese long-term banks announced a rise of 0.3 per cent to 5.2 per cent from August 1, the first increase since November 1985.

These banks have been pushing for a rise in the long-term prime rate, because of poor demand for their monthly issue of five-year debentures.

Debentures are usually issued with a coupon rate 0.9 per cent below the prime rate. The July issue had a record low coupon of 4 per cent, and was poorly received, trading up to 4.9 per cent on the secondary market. This suggests the rise of only 0.3 per cent in the prime rate may not be enough to prevent further pressure for another increase.

But the Japanese authorities probably see the forthcoming rise as a compromise after Japanese bond prices have recently fallen to six-month lows. A larger increase would mean an even weaker dollar, and considerable displeasure in Washington, ahead of the US Treasury quarterly refunding auctions on August 4 to 6.

Nomura suggested the rise in prime rate was largely for commercial reasons, reflecting shrinking profit margins for banks, and that at the moment it does not point to a tightening of credit policy by the Bank of Japan. It is not expected to have any impact on key money market rates.

On this basis Japanese demand at next month's US bond auction may be reasonably good. At the same time the interest rate picture around the world suggests a general firming. Last week's UK economic news does not point to any cut in bank base rates, and action by the West German Bundesbank tightened Frankfurt money market rates slightly. The central bank allotted funds at a securities repurchase agreement tender at a higher rate.

Mr Helmut Schlesinger, Bundesbank vice president played down the significance of the move, but it fits in with the present trend.

The dollar was a sufferer from interest rate trends, but also failed to gain support from the larger than expected rise of 2.6 per cent in second quarter US Gross National Product growth.

The market will continue to monitor closely figures on the US trade and budget deficits, but interest rate differentials are likely to have a significant impact.

£ IN NEW YORK

July 24	Close	Previous Close
£ Spot	1.6060-1.6070	1.6020-1.6030
1 month	0.29-0.28 pm	0.33-0.32 pm
3 months	0.91-0.89 pm	0.98-0.96 pm
12 months	3.17-3.07 pm	3.25-3.20 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	July 24	Previous
8.30 am	72.7	72.7
9.00 am	72.7	72.7
10.00 am	72.7	72.7
11.00 am	72.6	72.7
Noon	72.7	72.7
1.00 pm	72.7	72.7
2.00 pm	72.8	72.7
3.00 pm	72.8	72.7
4.00 pm	72.7	72.7

CURRENCY RATES

July 24	Bank rate %	Special Drawing Rights*	European Currency Unit
Sterling	—	0.790155	0.697754
U.S. Dollar	5.5	1.26725	1.11850
Canadian $	7.90	*	1.49006
Austrian Sch.	4	16.5262	14.6031
Belgian Franc	7¾	48.7194	43.0510
Danish Krone	7	8.94650	7.87927
Deutsche Mark	3.0	2.35050	2.07705
Neth. Guilder	4½	2.64729	2.33934
French Franc	9½	7.81893	6.90897
Italian Lira	11.5	N/A	1502.70
Japanese Yen	2½	190.975	167.887
Norway Krone	8	8.59196	7.58622
Spanish Peseta	—	N/A	142.049
Swedish Krona	7½	N/A	7.22103
Swiss Franc	3.5	1.94650	1.71913
Greek Drach.	20½	177.630	156.713
Irish Punt	—	N/A	0.775174

*CS/SDR rate for July 24: 1.68152

CURRENCY MOVEMENTS

July 24	Bank of England Index	Morgan Guaranty Changes %
Sterling	72.7	−20.8
U.S. Dollar	103.7	−3.7
Canadian Dollar	78.0	−10.8
Austrian Schilling	137.1	+10.1
Belgian Franc	99.7	−4.7
Danish Krone	91.8	+2.3
Deutsche Mark	146.3	+21.3
Swiss Franc	172.1	+22.5
Guilder	134.4	+14.1
French Franc	71.5	−12.9
Lira	47.0	−18.5
Yen	214.3	+59.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

July 24	£	$
Argentina	3.0845-3.0970	1.9200-1.9270
Australia	2.2675-2.2705	1.4125-1.4135
Brazil	72.8900-73.2800	45.3700-45.5970
Finland	7.1950-7.2155	4.4820-4.4850
Greece	222.70-226.50	139.15-141.60
Hong Kong	12.4500-12.5600	7.8075-7.8085
Iran	118.15*	72.30*
Korea (Sth)	1289.00-1300.65	804.70-811.30
Kuwait	0.45450-0.45700	0.28410-0.28420
Luxembourg	61.55-61.65	38.35-38.45
Malaysia	4.0600-4.0900	2.5420-2.5470
Mexico	2231.65-2255.55	1390.00-1404.00
N. Zealand	2.6795-2.6870	1.6690-1.6715
Saudi Ar.	6.0270-6.0325	3.7505-3.7515
Singapore	3.3700-3.4000	2.1100-2.1150
S. Af. (Cm)	3.3180-3.3340	2.0620-2.0660
S. Af. (Fn)	5.3110-5.4920	3.3060-3.4185
Taiwan	49.70-49.95	31.05-31.15
U.A.E.	5.9015-5.9070	3.6725-3.6735

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6040	1.6012	1.5954	1.5868	1.5733
D-mark	2.9725	2.9600	2.9337	2.8946	2.8204
French Fr	9.8925	9.8023	9.8644	9.8441	9.8243
Swiss Fr.	2.4625	2.4515	2.4298	2.3955	2.3331
Yen	240.50	239.43	237.39	234.20	228.23

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 24	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0510	+1.40	+0.78	±1.5344
Danish Krone	7.85212	7.87927	+0.35	−0.27	±1.6404
German D-Mark	2.05853	2.07705	+0.90	+0.28	±1.0981
French Franc	6.90403	6.90897	+0.07	−0.55	±1.3674
Dutch Guilder	2.31943	2.33934	+0.86	+0.24	±1.5012
Irish Punt	0.768411	0.775174	+0.88	+0.26	±1.6684
Italian Lira	1483.58	1502.70	+1.29	+1.21	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

July 24	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.604	2.973	240.5	9.893	2.463	3.348	2151.	2.148	61.60
$	0.623	1.	1.854	149.9	6.168	1.536	2.087	1341.	1.339	38.40
DM	0.336	0.540	1.	80.91	3.328	0.828	1.126	723.6	0.722	20.72
YEN	4.158	6.669	12.36	1000.	41.13	10.24	13.92	8944.	8.929	256.1
F Fr.	1.011	1.621	3.005	243.1	10.	2.489	3.384	2174.	2.171	62.27
S Fr.	0.406	0.651	1.207	97.66	4.017	1.	1.359	873.5	0.872	25.02
H Fl.	0.299	0.479	0.888	71.84	2.955	0.736	1.	642.6	0.642	18.40
Lira	0.465	0.746	1.382	111.8	4.599	1.145	1.556	1000.	0.998	26.64
C $	0.466	0.747	1.384	112.0	4.607	1.147	1.559	1002.	1.	26.68
B Fr.	1.623	2.604	4.825	390.4	16.06	3.998	5.434	3492.	3.486	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

July 24	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	8¾-8⅞	8⅝-8⅞	8⅞-9	9$\frac{1}{16}$-9$\frac{3}{16}$	9½-9$\frac{5}{8}$	9½-9⅝
U.S. Dollar	6$\frac{7}{16}$-6$\frac{9}{16}$	6⅝-6¾	6$\frac{11}{16}$-6$\frac{13}{16}$	6$\frac{15}{16}$-7$\frac{1}{16}$	7⅛-7¼	7$\frac{3}{16}$-7$\frac{11}{16}$
Can. Dollar	8⅜-8⅝	8⅜-8⅝	8¼-8½	8⅝-8⅞	9$\frac{1}{16}$-9$\frac{3}{16}$	9⅜-9⅝
D. Guilder	5-5⅛	5$\frac{1}{16}$-5$\frac{3}{16}$	5⅛-5¼	5$\frac{3}{16}$-5$\frac{5}{16}$	5¼-5	5$\frac{5}{16}$-5$\frac{7}{16}$
Sw. Franc	5⅜-⅞	8-8¼	3⅝-3¾	3$\frac{13}{16}$-3$\frac{15}{16}$	3$\frac{13}{16}$-3$\frac{15}{16}$	3⅞-4
Deutschmark	3⅝-3¾	3$\frac{11}{16}$-3$\frac{13}{16}$	3$\frac{11}{16}$-3$\frac{13}{16}$	3⅞-4	4-4⅛	4⅛-4¼
Fr. Franc	7⅛-7½	7½-7⅝	7$\frac{9}{16}$-7$\frac{11}{16}$	7$\frac{13}{16}$-8$\frac{1}{16}$	8$\frac{5}{16}$-8$\frac{7}{16}$	8$\frac{11}{16}$-8$\frac{13}{16}$
Italian Lire	9½-11½	9¼-10	9⅞-10⅛	10⅛-10⅞	10⅝-11	11-11⅛
B. Fr. (Fin.)	6¼-6½	6¼-6½	6¼-6½	6½-6¾	6¾-7	7-7¼
B. Fr. (Con.)	6-6½	5⅞-6⅛	6⅛-6⅜	6⅛-6¼	6½-7	6⅞-7⅛
Yen	3¼-3½	3$\frac{11}{16}$-3$\frac{13}{16}$	3⅝-3$\frac{13}{16}$	4-4$\frac{1}{16}$	4⅛-4$\frac{3}{16}$	4$\frac{3}{16}$-4¼
D. Krone	9⅜-9¾	9½-9⅞	9½-9⅞	9¾-10⅛	10½-10⅞	10¾-11
Asian $Sing	3½-3⅝	N/A	3$\frac{15}{16}$-4$\frac{1}{16}$	4⅛-4¼	4½-4⅝	4⅝-4¾

Long-term Eurodollars: Two years 8-8¼ per cent; three years 8½-8¾ per cent; four years 8⅝-8⅞ per cent; five years 8¾-9 per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

July 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5985-1.6095	1.6035-1.6045	0.30-0.27c pm	2.13	0.89-0.84 pm	2.16
Canada	2.1312-2.1510	2.1470-2.1480	0.09-0.01c dis	0.28	0.21-0.08 pm	−0.27
Netherlands	3.34¼-3.35¾	3.34¼-3.35¼	1⅛-⅞c pm	3.13	3⅛-3 pm	3.81
Belgium	61.57-61.90	61.80-61.90	13-12c pm	2.43	42-39 pm	2.62
Denmark	11.26¼-11.31	11.27-11.28	½-1¼ ore dis	−0.93	2¼-3 dis	−0.93
Ireland	1.1085-1.1135	1.1120-1.1130	Par-0.10p dis	−0.60	0.05-0.20 dis	−0.50
W. Germany	2.96¾-2.98	2.96¾-2.97¾	1⅛-1⅛ pf pm	5.05	4-3¾ pm	5.22
Portugal	231.61-233.64	232.55-233.45	84-144c dis	−5.87	316-403 dis	−6.17
Spain	203.41-204.22	203.80-204.10	152-202c dis	−10.41	390-455 dis	−8.29
Italy	2150-2158¼	2150½-2151½	1-4 lire dis	−1.39	5-11 dis	−0.74
Norway	10.85-10.89	10.85½-10.86½	4⅛-4⅞ ore dis	−4.97	12¼-13¼ dis	−4.70
France	9.88¾-9.91¼	9.88¾-9.89¾	1¼-¾c pm	1.21	3⅛-2½ pm	1.19
Sweden	10.33¾-10.37¼	10.35-10.36	1½-par ore pm	0.29	½-Par pm	0.10
Japan	240-241½	240-241	1¼-1 y pm	5.61	3¼-3 pm	5.20
Austria	20.88-20.95	20.88-20.91	8⅞-7⅞ gro pm	4.78	26¾-24⅞ pm	4.89
Switzerland	2.45¼-2.47	2.45¾-2.46¾	1¼-1 c pm	6.10	3⅞-3⅝ pm	5.28

Belgian rate is for convertible francs. Financial franc 61.80-61.90. Six-month forward dollar 1.75-1.70 c pm. 12-month 3.12-3.02 pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

July 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5985-1.6095	1.6035-1.6045	0.30-0.27c pm	2.13	0.89-0.84 pm	2.16
Ireland†	1.4400-1.4475	1.4445-1.4455	0.31-0.26c pm	2.37	1.03-0.88 pm	2.64
Canada	1.3310-1.3395	1.3385-1.3395	0.20-0.23c dis	−1.94	0.62-0.65 dis	−1.91
Netherlands	2.0825-2.0950	2.0860-2.0870	0.28-0.24c pm	1.49	0.87-0.82 pm	1.62
Belgium	38.35-38.56	38.35-38.45	3pm-par	0.47	7-2 pm	0.47
Denmark	7.01½-7.05½	7.02¾-7.03¼	1.10-1.80ore dis	−2.47	4.90-5.60 dis	−2.98
W. Germany	1.8490-1.8605	1.8530-1.8540	0.47-0.44pf pm	2.94	1.45-1.40pm	3.07
Portugal	144¼-145¼	144¾-145	80-115c dis	−8.07	280-330 dis	−8.42
Spain	126.73-127.25	126.95-127.05	100-130c dis	−10.87	310-350 dis	−10.39
Italy	1338-1346	1340¼-1341¼	3.40-4.50lire dis	−3.53	11.00-14.00dis	−3.72
Norway	6.76-6.79¼	6.76¾-6.77¼	3.80-4.30ore dis	−7.18	11.45-11.95dis	−6.91
France	6.15-6.18¼	6.16½-6.17	0.40-0.50c dis	−0.87	1.43-1.73 dis	−1.02
Sweden	6.44½-6.47¼	6.45¼-6.45¾	0.85-1.15ore dis	−1.86	3.35-3.75 dis	−2.20
Japan	149.60-151.05	149.85-149.95	0.42-0.39y pm	3.24	1.16-1.11 pm	3.02
Austria	13.00-13.07¼	13.02½-13.03	3.10-2.70gro pm	2.67	9.25-8.25pm	2.68
Switzerland	1.5320-1.5410	1.5350-1.5360	0.44-0.39c pm	3.24	1.24-1.19 pm	3.16

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.35-38.45

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Aug.	Sept.	Oct.	Dec.	Puts—Last Aug.	Sept.	Oct.	Dec.
1.45	—	15.55	—	15.55	—	0.00	—	0.24
1.50	10.55	10.55	10.55	10.55	0.02	0.05	0.27	0.80
1.55	5.65	5.57	5.84	6.25	0.30	0.48	1.09	2.05
1.60	1.52	2.14	2.78	3.42	1.17	2.05	3.03	4.22
1.65	0.16	0.28	1.04	1.45	4.81	5.19	6.29	7.25
1.70	0.00	0.02	0.30	0.56	9.65	9.93	10.55	11.36
1.75	0.00	0.00	—	0.18	14.65	14.91	—	15.98

Estimated volume total, Calls 0 Puts 0
Previous day's open int, Calls 372 Puts 1,586

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Aug.	Sept.	Oct.	Dec.	Puts—Last Aug.	Sept.	Oct.	Dec.
1.600	1.30	1.85	2.35	3.10	1.10	1.95	2.80	4.10
1.625	0.45	1.05	1.55	2.25	2.65	3.45	4.35	5.55
1.650	0.20	0.50	0.90	1.65	4.75	5.35	6.05	7.35
1.675	0.05	0.20	0.50	1.20	7.15	7.55	8.15	9.15
1.700	—	0.05	0.30	0.75	9.45	9.85	10.35	11.15
1.725	—	—	0.15	0.50	12.05	12.25	—	13.35
1.750	—	—	—	0.30	14.45	14.75	—	15.55

Previous day's open int: Calls 73,907 Puts 58,264
Previous day's volume: Calls 665 puts 304

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Sept	Dec	Puts—Last Sept	Dec
82	7.47	7.25	0.01	0.43
84	5.51	5.55	0.05	1.09
86	3.63	4.32	0.17	1.50
88	2.29	3.22	0.47	2.40
90	1.06	2.07	1.24	3.25
92	0.25	1.17	2.43	4.35
94	0.08	0.45	4.26	5.63
96	0.02	0.25	6.20	7.43

Estimated volume total, Calls 76 Puts 72
Previous day's open int: Calls 1,941 Puts 2,181

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last July	Aug.	Puts-Last July	Aug.
23000	8.30	10.02	0.00	1.72
23250	5.80	8.24	0.00	2.44
23500	3.30	6.64	0.00	3.34
23750	0.80	5.25	0.00	4.45
24000	0.00	4.06	1.70	5.76
24250	0.00	3.08	4.20	7.28
24500	0.00	2.28	6.70	8.98
24750	0.00	1.65	9.20	10.85

Estimated volume total, Calls 33 Puts 17
Previous day's open int: Calls 364 Puts 245

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Aug.	Sept.	Oct.	Dec.	Puts—Last Aug.	Sept.	Oct.	Dec.
1.45	—	12.70	—	12.90	—	1.50	—	2.70
1.50	10.30	10.30	10.30	10.30	0.20	0.25	0.70	1.10
1.55	5.30	5.40	5.85	6.30	0.50	0.70	1.40	2.40
1.60	1.50	2.10	2.80	3.50	1.55	2.30	3.40	4.55
1.65	0.30	0.65	1.20	1.75	5.40	5.95	6.70	7.75
1.70	0.20	0.25	0.45	0.85	10.25	10.90	10.95	11.75
1.75	0.35	0.50	—	1.20	14.80	15.30	—	16.50

Previous day's open int: Calls 0 Puts 0
Volume: 5

LIFFE—EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls—Last Sept.	Dec.	Mar.	June	Puts—Last Sept.	Dec.	Mar.	June
91.50	1.16	0.95	0.86	—	0.00	0.14	0.31	—
91.75	0.92	0.76	0.70	—	0.01	0.20	0.40	—
92.00	0.68	0.58	0.55	—	0.02	0.27	0.50	—
92.25	0.47	0.42	0.42	—	0.06	0.36	0.62	—
92.50	0.28	0.30	0.32	—	0.12	0.49	0.77	—
92.75	0.14	0.17	0.23	—	0.23	0.61	0.93	—
93.00	0.05	0.10	0.16	—	0.39	0.79	1.11	—

Previous day's open int: Calls 2,084 Puts 2,308
Estimated volume, Calls 1 Puts 20

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sept.	121-04	121-13	120-24	121-08
Dec.	121-00	—	—	121-04

Estimated volume 20,663 (30,149)
Previous day's open int. 31,751 (31,646)

6% NOTIONAL LONG TERM JAPANESE GOVT BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Sept.	107.34	107.70	107.30	107.10
Dec.	106.30	—	—	106.25

Estimated Volume 2,523 (1,896)
Previous day's open int. 1,076 (1,407)

THREE-MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Sept.	90.47	90.50	90.42	90.42
Dec.	90.25	90.27	90.20	90.22
Mar.	90.17	90.20	90.12	90.14
June	90.09	90.15	90.07	90.04
Sept.	90.05	90.05	90.03	90.00
Dec.	89.84	89.82	89.82	89.79

Estimated Volume 4,725 (9,987)
Previous day's open int. 15,793 (14,346)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Sept.	238.30	239.30	237.50	238.00
Dec.	242.80	—	—	242.50

Estimated volume 1,534 (3,722)
Previous day's open int. 6,887 (7,239)

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
Sept.	92.66	92.72	92.63	92.73
Dec.	92.31	92.39	92.27	92.37
March	92.05	92.13	92.04	92.11
June	91.82	91.91	91.81	91.88
Sept.	91.60	—	—	91.66
Dec.	91.39	—	—	91.45
Mar.	91.19	—	—	91.25
June	91.00	—	—	91.06

Estimated volume 7,293 (6,053)
Previous day's open int. 28,146 (28,274)

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Sept.	89-23	90-09	89-18	90-02
Dec.	88-23	—	—	89-02

Estimated Volume 8,725 (6,506)
Previous day's open int. 6,791 (6,597)

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Sept.	89.25	90.08	89.18	90.02
Dec.	88.25	89.05	88.18	89.01
Mar.	87.27	87.31	87.21	88.03
June	87.00	87.02	86.29	87.07
Sept.	86.07	86.09	86.01	86.14
Dec.	85.16	85.17	85.12	85.23
Mar.	84.26	84.28	84.21	85.02
June	84.06	—	—	84.14
Sept.	83.19	83.19	83.15	83.27
Dec.	83.01	83.04	82.30	83.10
Mar.	82.17	—	—	82.27

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Sept.	93.92	93.99	93.90	93.99
Dec.	93.64	93.69	93.59	93.70
Mar.	93.39	93.45	93.35	93.46
Jun.	93.18	93.18	93.17	93.25
Sept.	92.97	—	92.96	93.04
Dec.	92.77	—	—	92.83
Mar.	92.56	—	—	92.61

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Sep.	0.6533	0.6548	0.6516	0.6520
Dec.	0.6589	0.6603	0.6575	0.6576
Mar.	0.6645	0.6670	—	0.6632
June.	0.6707	0.6710	—	0.6694

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Close	High	Low	Prev.
Sept.	0.6704	0.6715	0.6660	0.6653
Dec.	0.6755	0.6765	0.6715	0.6703
Mar.	0.6811	0.6800	—	0.6758
June	0.6874	—	—	0.6820

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Close	High	Low	Prev.
Sept.	0.5411	0.5430	0.5400	0.5403
Dec.	0.5453	0.5470	0.5443	0.5445
Mar.	0.5497	0.5506	0.5500	0.5488

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Sept.	92.66	92.71	92.63	92.70
Dec.	92.30	92.37	92.27	92.36
Mar.	92.03	92.11	92.02	92.10
June	91.80	91.87	91.79	91.87
Sept.	91.58	91.65	91.57	91.66
Dec.	91.37	91.41	91.36	91.43
Mar.	91.16	91.19	91.14	91.21
June	90.96	90.99	90.95	91.00

STANDARD & POORS 500 INDEX
$500 times index

	Close	High	Low	Prev.
Sept.	310.30	310.60	308.70	309.15
Dec.	312.90	313.05	311.20	311.75
Mar.	315.20	315.40	313.80	314.15
June	317.65	317.80	316.20	316.55

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6040	1.6012	1.5954	1.5868	1.5733

IMM—STERLING $s per £

	Close	High	Low	Prev
Sept.	1.5995	1.6045	1.5970	1.5980
Dec.	1.5900	1.5960	1.5870	1.5885
Mar.	1.5845	1.5900	—	1.5830
June	1.5785	1.5830	—	1.5770

LIFFE—STERLING £25,000 $ per £

	Latest	High	Low	Prev
Sept.	1.6009	1.6042	1.5972	1.5992
Dec.	1.5920	—	—	1.5897
Mar.	1.5837	—	—	1.5823

Estimated volume 13 (0)
Previous day's open int 828 (828)

MONEY MARKETS

All may not be gloom and doom

ALL APPEARED to be gloom and doom on London's financial markets at one time last week, but several forecasters were prepared to say the scene was not as bad as suggested.

Interest rates had a firmer tone, following a sharp rise in UK bank lending and retail sales, and a deterioration in the trade figures. There was some suggestion the next move in base rates could be higher, but no strong pressure in the money market.

The popular view was that the figures pointed towards the British borrowing heavily and spending the money on foreign goods.

James Capel was not convinced this represented a true picture of events however, pointing out that these statistics are among the most volatile, and arguing that well over half the rise in imports of unfinished goods is probably associated with the strength of output, rather than a surge in consumer spending.

Capel also said speculation about a rise in interest rates is premature and unwarranted, and the next cut in base rates is merely delayed.

UK clearing bank base lending rate 9 per cent since May 8

Morgan Grenfell suggested that one month of high import growth and an acceleration of bank lending, in a month which may have been exceptional, do not give sufficient evidence of a deterioration in longer term economic prospects.

County NatWest Gilt-Edged Securities commented that the international outlook looks bad for interest rates, and believes this week's quarterly survey by the Confederation of British Industry will provide fuel for the debate on whether the UK economy is overheating.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 24) 3 months U.S. dollars		6 months U.S. dollars	
bid 6⅞	offer 7	bid 7⅛	offer 7¼

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	July 24	July 17		July 24	July 17
Bills on offer	£400m	£400m	Top accepted rate of discount	8.8442%	8.7841%
Total of applications	£1,615m	£1,136m	Average rate of discount	8.8442%	8.7823%
Total allocated	£400m	£400m	Average yield	9.04%	8.98%
Minimum accepted bid	£97.795	£97.81	Amount on offer at next tender	£300m	£400m
Allotment at minimum level	96%	92%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	July 24	change		July 24	change
LONDON			NEW YORK		
Base rates	9	Unch'd	Prime rates	8¼	Unch'd
7 day Interbank	8¾	+⅛	Federal Funds	5.89	+0.16
3-month Interbank	9$\frac{1}{16}$	+⅛	3 Mth. Treasury Bills	6.21	+0.13
Treasury Bill Tender	8.8442	+0.0619	6 Mth. Treasury Bills	6.33	+0.13
Band 1 Bills	8¾	Unch'd	3 Mth. CD	6.73	+0.06
Band 2 Bills	8¾	Unch'd	FRANKFURT		
Band 3 Bills	8¾	Unch'd	Lombard	5.0	Unch'd
Band 4 Bills	8¾	Unch'd	One mth. Interbank	3.825	+0.05
3 Mth. Treasury Bill	8$\frac{13}{16}$	+⅛	Three month	3.825	+0.05
1 Mth. Bank Bills	8$\frac{13}{16}$	+⅛	PARIS		
3 Mth. Bank Bills	8$\frac{15}{16}$	+⅛	Intervention Rate	7¾	Unch'd
TOKYO			One mth. Interbank	7$\frac{11}{16}$	+⅛
One month Bills	3.53125	Unch'd	Three month	7$\frac{15}{16}$	+⅛
Three month Bills	3.71875	Unch'd	MILAN		
BRUSSELS			One month	11¼	+1⅛
One month	6¾	Unch'd	Three month	[illegible]	+⅛
Three month	6⅛	+⅛	DUBLIN		
AMSTERDAM			One month	9⅝	Unch'd
One month	5½	Unch'd	Three month	9¾	Unch'd
Three month	5¼	Unch'd			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds	
Prime rate	8¼	One month	5.66
Broker loan rate	8½	Two month	5.93
Fed. funds	6½	Three month	6.27
Fed funds at intervention	6⅛	Six month	6.35
		One year	6.57
		Two year	7.49
		Three year	7.79
		Four year	8.02
		Five year	8.13
		Seven year	8.40
		10 year	8.57
		30 year	8.83

July 24	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.80-3.90	3.75-3.90	3.75-3.90	3.75-3.90	3.90-4.05	5.0
Paris	7⅛-7¾	7⅛-7¾	7⅞-7⅞	7⅛-8	8⅛-8⅜	7¾
Zurich	3⅛-4	3⅞-3⅞	—	3⅞-4	—	—
Amsterdam	5⅛-5¼	5¼-5⅜	—	5¼-5⅜	—	—
Tokyo	3.21875	3.53125	—	3.71875	—	—
Milan	10½-11½	10¼-11¼	—	11⅛-11⅜	—	—
Brussels	7.00	6⅛	—	6⅞-6⅞	—	—
Dublin	7⅞-8	9⅝-9¾	—	9⅝-9⅞	10¼-10¾	—

LONDON MONEY RATES

July 24	Overnight	7 days notice	Month	Three Months	Six Months	One Year
Interbank	10¼-6½	9	8⅞-8¾	9¼-9⅛	9⅝-9½	9¾-9⅝
Sterling CDs	—	—	8¾-8⅝	9-8⅞	9½-9⅜	9⅝-9½
Local Auth'rity Deps.	—	7⅞	8⅞	9	9⅜	—
Local Authority Bonds	—	—	—	—	—	—
Discount Mkt Deps.	8½	8½	8⅞	8⅞	—	—
Company Deposits	—	—	—	—	—	—
Finance House Deposits	—	—	—	—	—	—
Treasury Bills (Buy)	—	—	—	—	—	—
Bank Bills (Buy)	—	—	—	—	—	—
Fine Trade Bills (Buy)	—	—	—	—	—	—
Dollar CDs	—	—	6.75-6.70	6.90-6.85	7.10-7.05	7.55-7.50
SDR Linked Deposits	—	—	6½-6⅜	6⅝-6½	6¾-6⅝	6⅞-6¾
ECU Linked Deposits	—	—	6½-6⅜	6⅝-6¾	7-6⅞	7¼-7

Treasury Bills (sell); one-month 8$\frac{13}{16}$ per cent; three-months 8$\frac{13}{16}$ per cent; Bank Bills (sell); one-month 8¾ per cent; three months 8⅞ per cent; Treasury Bills; Average tender rate of discount 8.8442 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 30, 1987. Agreed rates for period July 26 to August 25, 1987, Scheme II & III: 10.17 p.c. Reference rate for period May 30 to June 30, 1987, Scheme IV: 8.940 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 9 per cent from July 1, 1987; Bank Deposit Rates for sums at seven days' notice 3-3¼ per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 8 per cent; one-three months 8¾ per cent; three-six months 9 per cent; six-nine months 9¼ per cent; nine-12 months 9¼ per cent; Under £100,000 8 per cent from July 16. Deposits withdrawn for cash 5 per cent.

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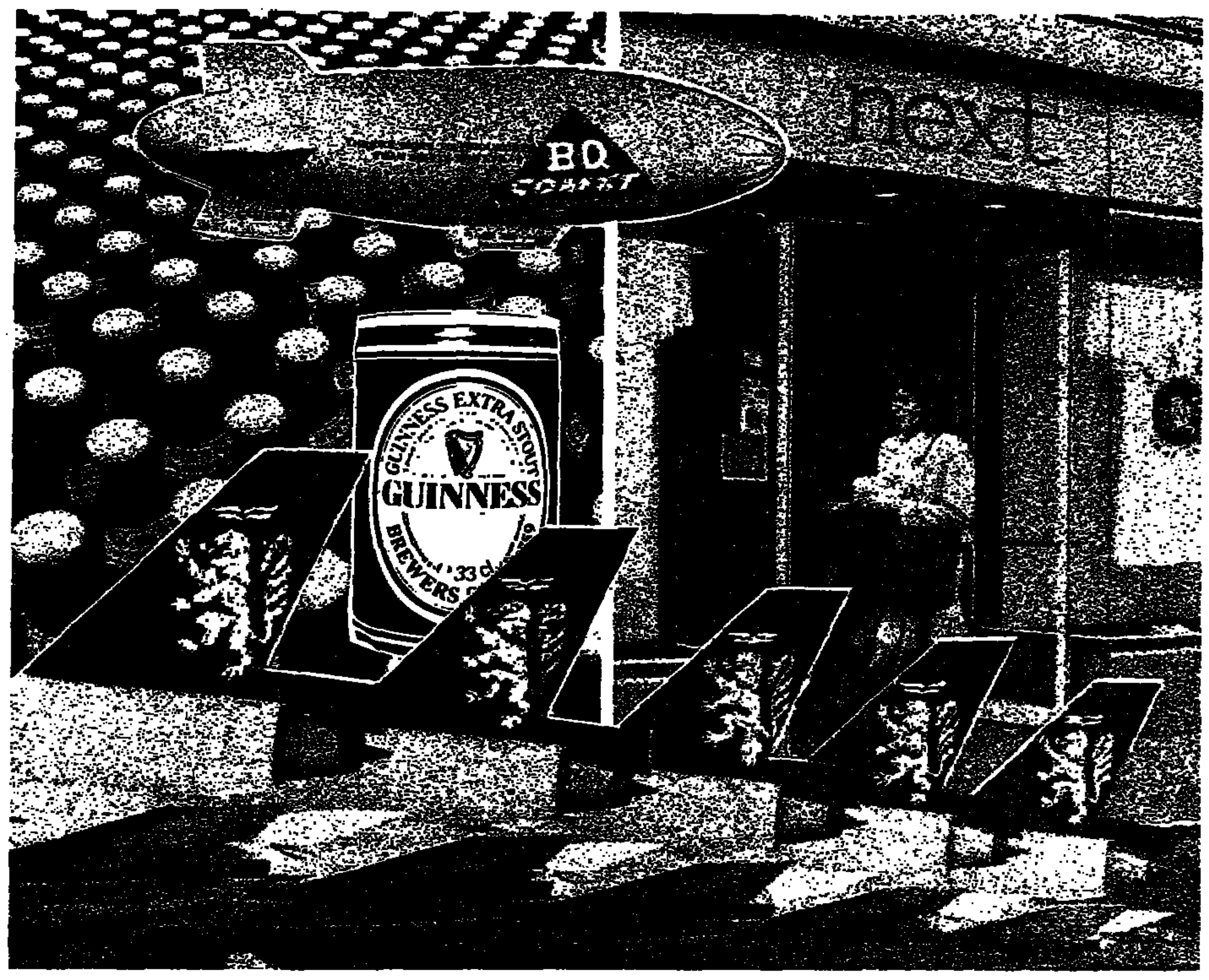
SECTION III

FINANCIAL TIMES SURVEY

In the aftermath of Big Bang, UK merchant banks face competition on all sides and are tending to become either global or niche players, writes **Martin Dickson**. Meanwhile, the traditional relationships between the banks and their corporate clients are breaking down.

Crisis for the medium-sized



Corporate Finance

BRITAIN'S CORPORATE finance industry is in a state of extraordinary upheaval—buffeted by the pressures of the City's Big Bang and a takeover wave which, though slowed by scandal, still has a great deal of life in it.

Big Bang—last October's deregulation of the UK securities industry and the concomitant creation of major new financial services conglomerates—has greatly intensified competition for corporate finance business. Meanwhile, the remarkable upward surge this year of the equity bull market has helped create a fever of public enthusiasm for new issues, and breathed new life into the two-year-old takeover boom. The Guinness scandal and the subsequent failure of BTR's £1.2bn bid for Pilkington Brothers have diminished the attraction of contested "mega-bids," but there is no shortage of agreed deals, such as this month's offer by British Airways for British Caledonian.

It has become "macho," rather than an admission of failure, for companies to dispose of large subsidiaries which do not fit; and more are being sold via public auctions—witness the impending break-up of the two-year marriage between supermarkets group Asda and furniture retailer MFI. Management buy-outs have become commonplace, while bankers are preparing themselves for a sharp rise in the number of trans-European deals.

The merchant banks, which have traditionally dominated corporate finance work, now face major challeges on all sides: from the investment banking arms of the top UK clearers, Barclays and National Westminster; from the corporate finance divisions of the top broking houses; and from the large American investment banks, which have been moving into London in strength.

Still to show their hand are the Japanese houses, which can bring to the party formidable financial muscle.

Against this background, the UK merchant banks have been polarising into two groups: those, such as S.G. Warburg, which have decided to meet the foreign competition head-on as integrated global securities houses; and others, such as Lazard Brothers, which have elected instead to occupy specialist market niches.

The pressures facing medium-sized houses which fall between these poles have been graphically underlined in the past few weeks by the decision of Hill Samuel to enter takeover talks with Union Bank of Switzerland. Several other UK banks now look vulnerable.

As the Hill Samuel example shows, the ability to commit very large sums of capital is one of the keys to first division status in the global securities trading market. And the willingness to do the same on behalf of clients is becoming an important factor in corporate finance work. Take two recent examples:

- Samuel Montagu, the merchant banking arm of Midland Bank, was co-adviser with First Boston in one of the most audacious deals of the year: the successful $560m bid by a small British company, WPP, for JWT Group, the large US advertising company. Montagu, together with Citibank, agreed to arrange loan facilities of up to $260m for WPP, plus a $50m working capital facility for JWT.
- Salomon Brothers, the large US securities house, was recently co-adviser to Next, the retail chain, in its £340m bid for Combined English Stores. On the first day of the bid, Salomon put its money where its mouth was and snapped up 17 per cent of CES's shares.

Salomon's role in the Next deal, which it helped originate, was a small but significant advance for the American banks which, to date, have been very much second-string advisers in contested bids, with the British banks handling strategy and tactics.

The Americans still lack experience of British bid battles—significantly, Lazards was brought in to help out on the Next deal—but this will not always be so.

Quite apart from the demands for capital and changes in the regulatory framework, the rapid proliferation of new financial instruments has been forcing structural change on the merchant banks.

In the cosy days of old, a client's capital raising demands might be no more complicated than a simple rights issue. Today, however, the possibilities have become extremely complex—be they convertible Eurobonds, swaps, or straight issues of Euro-equity. The equity and bonds markets have become more and more convergent, a situation underlined, for example, by Kleinwort Benson's recent decision to merge its capital markets and corporate finance divisions.

All of this, coupled with the increasingly international nature of the equities market, should work to the benefit of the large, integrated houses.

They can offer clients specialist knowledge across the board on the cheapest ways of raising finance to support a deal on which they are advising, and then distribute the resulting paper "product" through their international networks.

There are, however, a number of caveats to this view. First, the potential conflicts of interest inherent in houses which are both trading shares and giving corporate finance advice may put off some companies.

Second, quality is still a vital ingredient in advisory work, and that is not necessarily related to the size of the parent bank. But perhaps the most crucial factor in this debate is the future of "pre-emption rights"—the long-standing British principle (and a rarity in the major capital markets) that investors should have first refusal on large blocks of shares issued by their company.

If pre-emption rights were to go, this would open the way for the introduction of American-style "bought deals," whereby a securities house buys up a whole issue of shares, without recourse to underwriters, and then distributes it to investors itself. Such a system favours the big players, able to take greater risks. It also cuts out the lucrative, and very easily earned underwriting fees on share issues which are enjoyed by the leading UK financial institutions. And those institutions also just happen to be the major shareholders in Britain's companies.

It is hardly surprising, then, that the pre-emption principle has become one of the City's most controversial topics in recent months.

The issue came to a head when a number of companies—including Fisons, the pharmaceuticals group, and C. H. Beazer, the construction business—announced plans for international share placings which broke the institutions' guidelines on the maximum size of such offerings. The big shareholders dug in their heels; the companies were forced to scale down the placings; and the institutions followed up this victory by tightening their guidelines even further—in future, they will oppose share issues which exceed 2.5 per cent of issued share capital if existing investors are not given the right of first refusal.

Their stance has been bitterly attacked by investment banks, which argue that the institutions are severely limiting the ability of British companies to tap international equity and equity-linked debt markets, and thus reducing their ability to raise funds on the finest terms and to gain an international shareholder following which could help their market rating.

But the institutions reply that such offerings can have a depressing effect on the share price, that there is no necessary advantage in an international spread of investors, and that, in the final analysis, they simply do not want their stakes in companies diluted in this manner.

Neither side is exactly disinterested: the banks earn large fees on these issues; the institutions have their underwriting commissions to protect. But at present the institutions hold the whip hand, since companies are obliged by law to consult shareholders if they wish to over-ride the pre-emption principle.

What is there in all this upheaval for the corporate client who, after all, is supposed to be the main beneficiary of efficient capital markets?

The greater competition among the banks is breaking down the old relationships under which a company had a single merchant banking advisor. Now the bigger businesses are likely to have several, used for different needs. And banks with which companies have no relations may still approach them with ideas for one-off deals. This choice must be healthy, if sometimes confusing, though some companies doubtless make bad acquisitions in the strength of enthusiastic pitches from deal-makers.

Underwriting costs are also under pressure. The Government's privatisation issues have broken the mould on flotation costs, while, in the recent WPP bid, Samuel Montagu introduced a novel two-tier success-related underwriting commission structure on a £177m rights issue. And M & G, the largest unit trust group and something of a City maverick, has offered to do a suitable traditional rights issue for less than the normal 1.25 per cent fee, or even no commission at all, provided other institutions can be persuaded to join in. Heady stuff, though heretical—at least, for now.

CONTENTS

Take-overs

Still alive but more discreet

REMEMBER JUNE 1986? At the end of that month, contested offers totalling more than £3bn were outstanding in London. Among them, the £1.8bn Dixons-Woolworth assault, the £1.2bn Lloyds Bank-Standard Chartered tussle, and a smattering of smaller fry, like Tranwood-Aitken Hume or Evered-McKechnie.

Switch to mid-June 1987 and it is hard to dredge up £100m-worth of hostile bids, with the £77m TKM-Molins offer the only battle of any magnitude.

In between, of course, came the Boesky revelations, the unfolding of the Guinness scandal and—in January—the acclaimed Pilkington defence against BTR, the last mega-bid to hit the City.

But to conclude that takeover activity had simply died would be a hideous misconception. Hostile approaches between British groups may be few and far between these days, but the first week of July alone saw agreed deals worth well over £1bn struck.

Moreover, the trek by British companies into the States, which got under way in 1986, has continued apace—with approaches like Robert Maxwell's £1.2bn bid for Harcourt Bruce Janourvich and WPP's highly-geared offer for esteemed New York ad agency and PR group, JWT, breaking new ground in terms of audacity.

So why the shift? The most obvious influence to pin-point would be the Guinness aftermath. On the one hand, revelations of the share-price rigging at the drinks giant during the hotly-contested Distillers bid brought concrete changes—like the new Takeover Panel rules, which require shareholders in either target or bidding company to disclose any changes in excess of 1 per cent in the equity during an offer.

On the other, there may have been the subtler swings in sentiment—reports of a new wariness among City operators and a desire at least to be seen to play by all the rules. Certainly, in those few contested bids which have succeeded this year, share prices in the target company have stayed well adrift from bid terms, and merchant bankers—scrabbling for stock—have bemoaned the absence of arbs.

But, in many ways, BTR's decision to pull out of the Pilkington battle crystallised a more significant factor. In January, Sir Owen Green bid 544p a share (the opening value of its paper terms and a mere 3 per cent above the speculation-inflated price on the previous day); Pilkington shares soared to 611p. Pilkington forecast doubled profits at £250m, and the City speculated that BTR would have to go to well over 800p. Sir Owen then withdrew—only to see the Pilkington share price subsequently run on past the £10-mark within months.

In short, faced with a wave of criticism about "short-termism" and doubtless aware of an impending election, fund managers made it very clear that their key support in contested bids would only come at a price—and a high one.

In the two major contested offers which have succeeded—Tesco's £228m bids for Hillards and Ranks Hovis McDougall's £281m offer for Avana—the premium paid for control has been a generous one. Tesco took out Hillards, the Yorkshire-based supermarket chain, on a multiple of 23 times current year earnings—easily comparable with recent Dee and Argyll acquisitions—while RHM paid 22 times 1986—earnings at Avana.

That success contrasts sharply with the experience of Williams Holdings in its £570m offer for Norcros, which was declared final after two-and-a-half weeks, truncating the offer period to five weeks. Williams (on its paper terms) was offering an exit multiple of 14 times the forecast current year earnings—a well-pitched offer for the type of business in another climate, but not one whose generosity was compulsive.

And the gamble which failed—by a narrow 2 per cent margin, the Norcros management retained the company's independence.

But, then, perhaps the downturn in contested bid activity is scarcely surprising. Many of the most obvious targets have either been snapped up; or equally, especially in the case of vulnerable conglomerates, protective action has been taken via pre-emptive corporate reshuffling. And that, in turn, has bolstered a new, though rather different, wave of corporate activity.

Bowater, the paper and packaging group where the ever-acquisitive Hanson Trust had raised its stake to almost 12 per cent in early 1986 before selling out last January, is an example of a company still at the early stages of the process. But new chairman and recently-retired BTR director, Norman Ireland has made clear that last year's £104m disposals will fund future development. "From now on, it is our intention to use the war chest available to seek new opportunities."

Reed International is another farther down the line—over the past month netting £250m—from the sale of its paints and DIY interests to Williams, and immediately snapping up Octopus, Paul Hamlyn's publishing empire. All, says Reed, is part of a policy of concentrating on core activities—publishing, paper and packaging. And although bid froth has been evident recently—after all, Robert Maxwell currently has his coffers full—the argument is that a higher rating on fundamental grounds should be justified longer-term: the best protection any company has.

The Reed manoeuvres highlight another recent development on the takeover scene—the use of auctions as a means of disposing of peripheral businesses. This is a merchant bank tool which has seen growing popularity recently, with the likes of Hanson, Reed, Cadbury-Schweppes and Safeway among the larger users.

But if that is one small US import here, it fades into insignificance besides the trail of British companies buying into the States. The initial successful forays, though in some cases extremely substantial—witness Unilever's £2.1bn purchase of Cheesebrough-Pond's—were, in the main, agreed deals. But recently there has been some triumph in the contested arena. WPP's $566m offer for JWT Group was audacity all round and a taste for Wall Street of its own medicine. Two years ago, before the arrival of former Saatchi and Saatchi finance director, Mr Martin Sorrell, the company made shopping trolleys and wire products. It was capitalised at £120m and, via the highly-geared bid, plans to create a company with a net asset deficiency of £90m.

Although it is easy to pin-point positive advantages to Stateside expansion—though a not very happy history for British companies—many have also blamed the lack of internal contested activity to the overhang of the election and uncertainty about the UK stockmarket's future direction.

The first, at least, has now cleared, although the latter is still a trifle unsettled. Even so, relatively little in the way of pent-up hostile activity has emerged at home—rather, agreed deals and a sea of small "shell-style" situations. And that, one suspects, could be the pattern for a while yet.

Nikki Tait

THE APPROACH by Union Bank of Switzerland to Hill Samuel, first disclosed earlier this month, has provided a reminder that the City Revolution is likely to move into a second stage.

Turmoil ahead of Big Bang last October, as firms and individual practitioners in the markets positioned themselves for the new trading environment, was followed by a few months of apparent tranquillity.

Fears of an early shakeout, because of overcapacity in the securities markets, were not fulfilled. The volume of business was such — with a more than doubling of turnover in equities, for instance — that most firms managed to keep their heads above water.

Rising markets for both bonds and equities have also served to help those houses (probably most of them) that have been finding it impossible to make ends meet out of basic day-to-day trading. Their inventories have appreciated.

However, the strains have begun to show. In the spring Midland Bank's subsidiary Greenwell Montagu pulled out of equity market making, and last month Lloyds Bank abruptly ceased trading in bonds.

There has been a series of less drastic adjustments by stock market firms. Several months ago, for instance, Robert Fleming ceased to make markets in food shares, while Barclays de Zoete Wedd pulled out of TV companies, and, at the beginning of July, Shearson Lehman (formerly L. Messel) cut 150 stocks from its UK list.

These are fairly routine adjustments, although there is an element of recognition of the high level of competition in market making.

Generally speaking, institutional investors are very pleased with the post-Big Bang improvement in liquidity, even in the beta and gamma stocks, the small capitalisation sectors where lack of marketability has been feared. But, of course, the better the markets are for investors the more difficult it is likely to be for market makers to generate satisfactory profits.

On a more positive strategic note, the Swiss banks have been moving heavily into London. Quite apart from the ambitions of UBS (which already owns Phillips & Drew, one of the top five London securities firms), its rival the Swiss Banking Corporation bought Savory Milln, a leader in the London trading of continental equities, from its Canadian former owners earlier this year.

The Japanese securities houses are also steadily developing their long-term plans. Takeovers are not their style, but their presence is rapidly growing and they are certainly not short of resources.

Seaq soon saw off the traditional trading floor — Alan Harper

The City Revolution

Eyes on stage two and the next drop

Nomura, the biggest, has indicated an intention to start making markets in UK equities soon. It is also tipped (along with one or two other Japanese houses) as a candidate in the next group of entrants to the ranks of gilt-edged primary dealers, after the one-year grace period allowed to the original 27 (now 26) UK government bond market makers.

As expected, Big Bang ushered in much lower commissions on London trading of equities, the typical commission on institutional agency business roughly halving to 0.2 per cent. Trading in gilts and sterling corporate bonds, meanwhile, shifted almost entirely to a "net" basis, without separate commission.

Net trading in equities was also predominant at first for institutions, but subsequently there has been a shift back to nearer a 50:50 split in the two types of trading.

Many fund managers are prepared to be reasonably generous in paying commissions in exchange for a high level of service. This means not just research but also a position at, or near, the top of the analysts' telephone lists when they call up clients with the latest tips and stories.

But there are complaints that the overall quality of brokers' research has dropped since Big Bang. The whole emphasis has become much shorter term, which perhaps is not surprising given the influence of the trading desks which are now prominent in the big securities firms' high-tech dealing rooms.

There is a suspicion that research analysts are giving at least as much priority to servicing their market makers as they are to generating ideas and written analysis on behalf of investment clients. Some are also trying to work for corporate clients, a multiplication of roles and responsibilities which is causing dissatisfaction (though it is fair to say that fund managers vary in their opinions).

From the securities firms' point of view, however, the integration of several activities is fundamental to their success in the new-style trading environment.

Their corporate finance departments, for instance, can now be used to generate a stream of transactions which can be distributed through their securities trading arms. To some extent, at least in the bigger integrated groups, market making is a service operation to support corporate finance, and this may explain why the low profits (and high competition) in this area can be tolerated.

One penalty of the new system is that institutional investors now need to be much more alert to the inherent conflicts of interest, whether in the over-promotion of corporate deals by in-house analysts and salesmen, or in "front-running" by trading desks which are working too closely with their analysts to manipulate the market ahead of stock recommendations.

Fund managers are unanimous, however, in welcoming their new ability to do "basket trades"—that is, to unload large mixed portfolios quickly and at very keen prices. Whole investment trusts involving more than £100m have been sold in a block and dismembered by securities firms in a matter of hours.

This liquidity reflects the capabilities of the new electronic market-place, together with the availability of hedging instruments to enable securities firms to offset some of the market risk. There may also, however, be an element of loss leading as firms attempt to build market share, and this level of excess competition is unlikely to persist.

The trading skills needed for this kind of business are at a premium in the post-Big Bang market. Anything up to 20 market makers are making prices in some of the individual leading stocks. A dozen big players are typically competing for business in a "alpha" stock.

Certainly the electronic system Seaq (Stock Exchange Automated Quotation) soon saw off the traditional trading floor. Smith New Court, the biggest equity jobber under the old system, had hoped to stay there, trading on the face-to-face basis which its dealers much preferred, but it pulled out only two months after the Big Bang.

Despite its early teething problems, the new market has been a great success, and after nine months most firms are in better shape than they probably anticipated in the apprehensive days just before Big Bang.

But stock market firms are also acutely aware that conditions have been freakishly favourable in the past few months. This has boosted trading, with the consequence, however, of acute problems in their back offices, which have often not been able to cope with unprecedented volumes of transactions.

Before Big Bang, heavy investment went into the glamorous "front office" trading and research areas, but comparatively few resources were devoted to the settlement side. That is now being urgently corrected.

But beyond that, the strategic planners of stock market firms are working out how they could possibly survive the next bear market in reasonable shape. The bigger operators are also concerned at the need to build global capability. The new round of mergers and deals now taking shape can be seen as a response to these reassessments.

Barry Riley

هكذا من الأصل

We're a bank that relishes any challenge. But when the Irish company Waterford Glass told us it proposed a friendly takeover of British-based Wedgwood plc in October 1986, we really had to move very fast.

The acquisition called primarily for a share issue by the company but also for £50 million from Waterford's own resources. Chase was asked to make this cash available.

Within three days.

The Chase organisation swung into action immediately.

We'd had a longstanding relationship with Waterford as a corporate client, stretching back to the 1960s, both in Dublin and New York.

So our investment banking experts already had the benefit of an intimate understanding of Waterford and its business, and how complementary the Wedgwood operation would be.

To structure the facility we called on our own capital base to provide the £50 million cash.

All achieved over a weekend plus one business day.

The acquisition was announced a few days later and finally concluded early in November 1986.

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We integrate our sheer size, international network and highly specialised industry knowledge with the broadest range of banking products.

This all-round capability is what sets us apart from other banking institutions around the world.

So however complex your financial deals may be, or however rapidly you need a response, one thing is crystal clear.

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CHASE

Management buy-outs

Market nears maturity as rules are tightened

THE MANAGEMENT buy-out has consolidated its position over the past 18 months as an important tool for corporate restructuring and renewal. It looks set to achieve another record this year in terms of the value of deals completed, while the techniques for arranging buy-outs are being constantly refined.

Paradoxically, the past 18 months have also seen increasing competition for control of would-be buy-out companies from rival corporate bidders, and a number of conspicuous failures by buy-out teams to win the day.

The year 1986 was as notable for the deals which never came to fruition as for those that did, a recent survey of the buy-out scene, Trends in UK Buy-outs*, noted.

The management of the publicly-quoted printing group, McCorquodale, was unsuccessful in its attempt to fight off an unwelcome takeover bid from rival printer, Norton Opax, by means of a buy-out. Norton finally won the day with a bid worth £156m.

The management of Thorn-EMI Screen Entertainment attempted to buy its business from Thorn-EMI, but was unable to raise the £110m asking price within the time allowed. More recently mergers at Reed International's DIY group were outbid by Williams Holdings with an offer worth £285m.

Though they failed, these deals succeeded in drawing attention to the buy-out as a means of managements taking control of their businesses and of vendors broadening their sale options.

But for these set-backs, the value of buy-outs completed in 1986 would have been even higher. As it was, the number of buy-outs completed last year rose from 229 to 261, while the value increased from £1.15bn to £1.21bn, according to the Trends survey.

This was only a modest increase in value terms compared with the near three-fold increase of 1985 over 1984. But the 1985 figures contained one very large buy-out, of Lawson Mardon, the packaging concern, from BAT Industries, which accounted for nearly a quarter of 1985 deals by value.

The growth trend is set to continue in 1987, according to a recent review by accountants Peat Marwick McLintock (PMM). Buy-outs worth £800m were completed in the first half of 1987, two-thirds the total figure for 1986, suggesting that the current year will be the eighth in succession to set a new record, PMM said.

Despite the continuing buoyancy of the buy-out scene, the market is approaching maturity, in the view of many of the institutions which provide funding. So much money has sloshed into the buy-out arena that the management teams have been able to negotiate ever better deals for themselves—usually in the form of sizeable stakes in the buy-out company's equity.

Up to a point the institutions have been prepared to go along with this, since the strength of the stock market has enabled many buy-outs to seek a stock exchange listing within a relatively short time and at pretty fancy prices.

But fears of a market downturn and a sense that some managers were becoming too greedy has led to some institutions taking a tougher line. They have begun to develop more sophisticated financial techniques—known as ratcheting—to tie managements down to a more realistic equity stake. Only when certain profit targets are met do managers earn a larger shareholding.

Institutions which have built up a name for backing buy-outs have also started to broaden their range of activities to take in more profitable fields such as buy-ins.

Buy-ins involve an outside management team being sent into a poorly-performing company to revitalise it. The risks are usually greater than a buy-out, because the new management does not have as detailed a knowledge of the company as a buy-out team would have, but the rewards can be correspondingly higher.

Ironically, the strength of the stock market boom, has made it easier for quoted corporate rivals to use their highly-rated shares to outbid management teams. The managers, who must usually borrow most of their finance, are faced with taking on an impossible burden of debt or bowing out.

One response which has been devised by sympathetic institutions has been the "bought deal." The institution takes the entire funding on to its own books initially and syndicates the lending more widely at a later date. This allows the management team to match a corporate bidder in the speed with which it pits together its financial package. It also cuts down the risk that news of the managers' intentions will leak out prematurely.

The financing of the deals themselves is also becoming increasingly sophisticated. The aim is to balance a reasonable return for the investor with the need not to overburden the management team with debt.

Too much equity may not give the institutions the yield they are seeking, while too little can mean there is insufficient asset-backing to support the loans and working capital required. This has led to the addition of subordinated mezzanine finance to the funding package. Effectively, these funds are high-yielding loan notes, which rank ahead of equity if the company is liquidated.

Buy-outs are also becoming increasingly international in terms of both the companies involved and the investing institutions. More UK buy-outs involved a part of an overseas parent company, while the larger deals increasingly include companies with overseas operations. This means the sponsoring institutons must themselves be able to operate internationally.

Candover Investments is among the specialist groups active overseas. From the left: Roger Brooke (chief executive), Peter Wreford (chairman), Stephen Curran (deputy chief executive)

Number and value of buy-outs: 1967-86

Year	No.	Cumulative No.	Value	Cumulative value	Average value in year
			(£m)	(£m)	
1967-76	43	43	n/a	n/a	n/a
1977	13	56	n/a	n/a	n/a
1978	23	79	n/a	n/a	n/a
1979	52	131	26	26	0.50
1980	107	238	50	76	0.47
1981	124	362	114	190	0.92
1982	170	532	265	455	1.56
1983	205	737	315	770	1.54
1984	210	947	415	1,185	1.98
1985	229	1,176	1,150	2,335	5.02
1986	261	1,437	1,210	3,545	4.64

Source: Trends in UK Buy-outs

The more specialised buy-out groups, such as Candover and Schroder Ventures, are setting up their own funds overseas or are linking with foreign partners.

The internationalisation of buy-out deals is not without its problems however. The managers and their advisers are often dealing with several different legal, banking and tax regimes. They have also to ensure that the weighty documentation drawn up in one language means the same when it has been translated into another.

The success of the buy-out as a means of improving performance is reflected in the increasing number of companies which are now coming to the stock market.

If extra proof were needed of the extent to which the buy-out has established a niche for itself, some of the companies which had been bought out have, in turn, spun off parts of themselves to groups of managers by way of a second-generation buy-out.

Lawson Marden sold off its specialised packaging manufacturing interests, renamed Cundell Industries, to a group of managers for £12m just nine months after its own managers had bought out Lawson for £273m.

*By Venture Economics and The Centre for Management Buy-out Research.

Charles Batchelor

Risk management

Options have a new look

EVER SINCE the fixed exchange rate system was shattered in the early 1970s, corporations have been faced with the problem of risk management. Many were quick to find that oscillating exchange rates could slash overseas revenues or make their exports uncompetitive.

The double-digit interest rates of the early 1980s added interest rate risk to the equation, and those UK companies that had geared up in order to diversify overseas found themselves with extra headaches.

Banks had always been prepared to offer risk management products, but they received an extra spur when profits on their traditional loan activities were hit by the Third World debt crisis. Financial options and futures markets were established in Chicago in the early seventies, gradually spreading to other financial centres in the early eighties, and that enabled banks to offer risk products in the knowledge that ultimately they could offset the risks.

Corporate treasurers were cautious at first about accepting some of the more arcane products, but they have become increasingly sophisticated in recent years.

The risk products fall into two basic categories: those that fix an exchange or interest rate in advance, and those that give the company an option to fix a future rate. The former group were quickly accepted by treasurers who liked the certainty that they bought, but many disliked option-style products because they required the payment of an upfront premium.

However, banks have recently been countering the option problem by devising products—like the so-called cylinder option—which minimise the upfront premium but retain some of the instrument's flexibility. Options can seem particularly attractive when a company is tendering for a foreign contract. They give the company the chance to fix the exchange rate without committing itself to selling large amounts of foreign exchange, which it might not have, if it fails to win the tender.

On the fixed side, the forward foreign exchange market's flexibility has proved much more attractive to corporations than the futures market, with its margin payments, fixed contract sizes and maturities. But treasurers are now ready to use the interest rate swap market, not just to fix the cost of a particular bundle of debt but to manage actively their debt portfolio, switching the proportions of fixed and floating rate debt as their interest rate expectations change.

And some treasurers are now so at home with the new instruments that they play a significant part in devising their own risk management programme.

No matter how careful the modern corporate treasurer is in controlling the company's debt portfolio, a major acquisition can throw the whole programme out of balance. Such was the case for Rob Mitchell, treasurer of Grand Metropolitan, when earlier this year the food and drinks group paid

Some treasurers are now so at home with the new instruments that they play a significant part in devising their own risk management programme

$1.4bn in cash for Heublein, the US-based producers of Smirnoff vodka.

The immediate financing was arranged with a few banks, but as a consequence Grand Met suddenly had a large dollop of floating rate debt on its books, with a potentially high exposure to increased interest rates. Mr Mitchell thus determined to fix the rate on up to $900m of the Heublein consideration, and sat down to consider his options.

"A bond offering would have been far too complex," he recalls. "It would have involved simultaneous offerings in a variety of centres and the documentation would have been horrendous. We would also have had to pay a fairly hefty spread over the equivalent Treasuries."

With a rights issue not a serious alternative, in the light of intense takeover speculation, the only practical option was a swaps programme. Only four years earlier, when the total volume of the swaps market had been $3bn, such a programme would save been impossible. But such had been the growth of the market—$300bn was its estimated size at the end of 1986—that swaps appeared the ideal solution.

Grand Met had been involved in swaps since the earliest days of the market, so the company had little difficulty with what some regard as an arcane technique. Mr Mitchell therefore approached his merchant bank S. G. Warburg with an idea for establishing a panel of banks, which would bid for each swap tranche over a period of days. That way Grand Met could be sure it was getting the best possible market rates, rather than taking pot luck and approaching one or two banks.

Warburg invited around 25 banks to join the panel, and eventually 16 proved successful—on any particular day, a dozen were invited to bid for $25m tranches, up to a limit of $100m, with maturities of three, five and seven years.

Having set an initial target of $500m, Grand Met found that, over six days, it received acceptable bid for $750m of swaps. Although some banks obviously did not want to bid on certain days, the bids were usually pitched within a range of around 12-13 basis points.

Accepted bids ranged from 61 basis points over the equivalent US Treasuries on three-year maturities to 86 basis points on the longest maturities. Just by accepting the best, rather than the average, bids Grand Met saved around three to six basis points per tranche—about $1m in present values, after applying discount calculations.

Further savings were made by having Warburg's treasury traders compete for US Treasury business with the in-house traders of the swaps counterparties. Warburg estimated that Grand Met saved around $150,000 by this arrangement.

The success of the deal was cemented by the general strengthening in rates after the swaps were announced. Grand Met had been paying a small margin over London Interbank Offered Rate (Libor) on its floating rate debt. Had it tried to arrange the same swaps just a few weeks later, the cost would have been some $25m more in present value terms.

"We were very happy with the programme," says Mr Mitchell, "both in monetary and in publicity terms." And with a subsequent disposal reducing further his floating rate debt burden, he is now happy with the structure of his debt portfolio.

Philip Coggan

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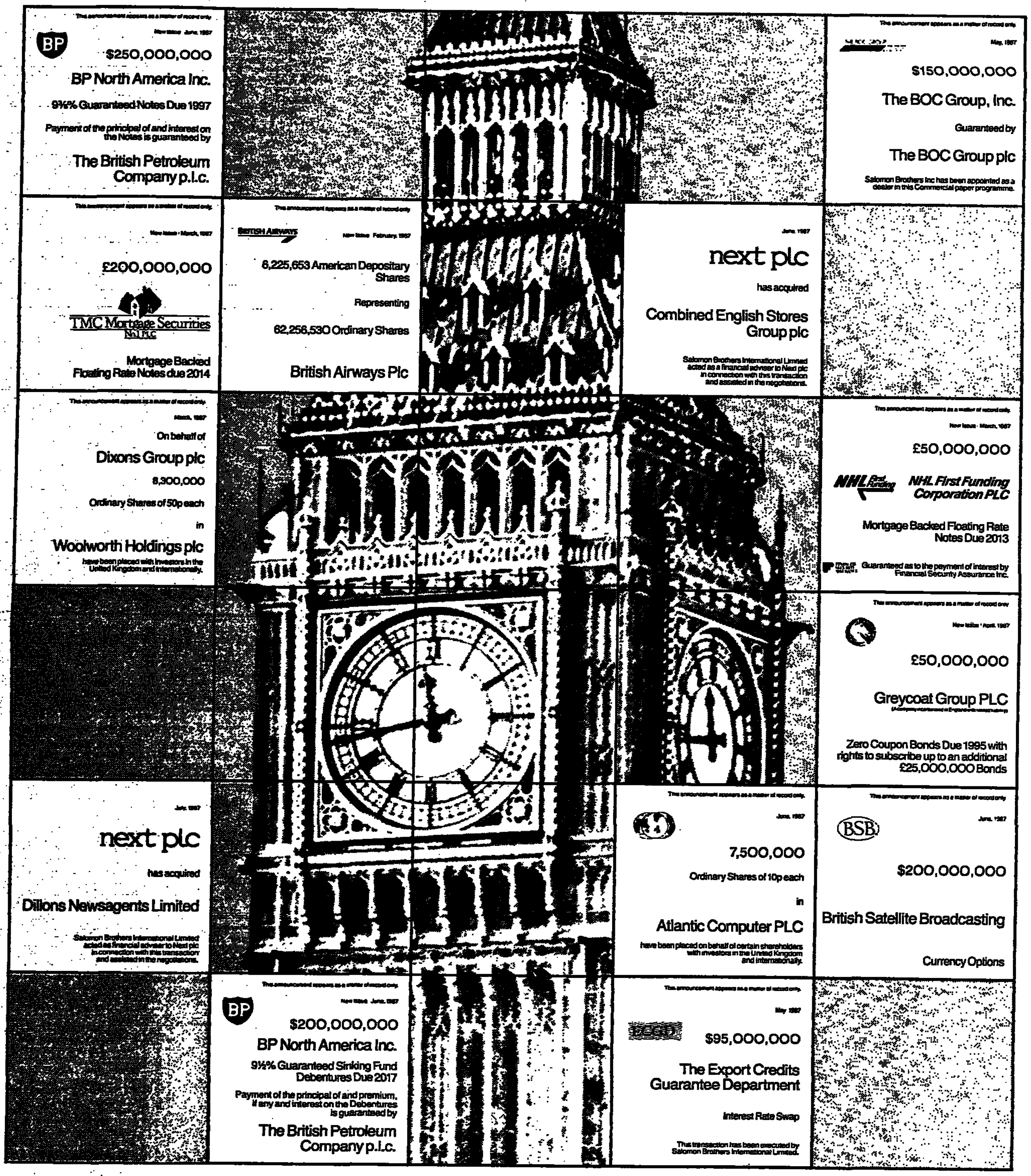

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UK securities houses and merchant banks

Foreign threat divides home players

LESS THAN a year after the upheavals of Big Bang—the deregulation of the London securities market—the ground is already beginning to shake again under some of Britain's financial services groups.

The most dramatic evidence that a new round of restructuring may be under way in the City was the announcement earlier this month that Union Bank of Switzerland was discussing a takeover of Hill Samuel, the merchant bank.

Hill Samuel epitomises the type of investment bank which is under particular pressure in the post-Big Bang era, being a medium-sized house at the top of the second league of financial advisers.

Such banks risk being caught in a no-man's-land as the British securities houses polarise into two categories in the face of fierce competition from the major American players and the impending arrival of the powerful Japanese divisions.

On the one side, there are those which have the financial muscle and comprehensive range of services to join the big league of global investment bankers. On the other, are smaller groups which have opted to become niche players specialising in a few areas of corporate finance work.

For Hill Samuel, the great attraction of a deal with UBS is the chance to join the global first division. And one of the most popular games in the City now is guessing just how many other houses will fall into a foreign embrace over the next few years or severely curb their current ambitions.

Among the traditional British merchant banks, the financial services group which has been built up around S. G. Warburg is generally credited with standing most chance of making it in the international big league—though there are still some very big gaps in its global coverage.

The group (soon to change its name from Mercury International to S. G. Warburg) recently made the biggest ever rights issue by a merchant bank, raising £131m to bring its capital near to that of a medium sized global investment bank. It accompanied the cash call with pre-tax profits for the year to March up 68 per cent to £98m, showing good progress despite the costs of Big Bang.

Warburg Securities, its merger of broker Rowe & Pitman and jobber Akroyd and Smithers, is widely regarded as one of the most successful of the new unions, while its capital markets side has moved up into the top 10 Eurobond lead managers, thanks to the strength of the sterling market. In corporate finance, it continues to be one of the foremost advisors in takeover bids.

Two other merchant banks have, in recent years, been ranked in the very first division of corporate finance work alongside Warburgs: Morgan Grenfell and Kleinwort Benson. But Morgan now looks vulnerable to a bid, a fact reflected in the rise of its share price after the UBS-Hill Samuel announcement.

Morgan's strategy for Big Bang has long seemed indecisive: it did not snap up any of the leading securities dealing firms in the run-up to deregulation, and, while the team it has built up around a small broker and jobber is doing better than some expected, it remains outside the big league. It has also been very slow to build a presence in the Eurobond market.

On top of this, Morgan has been at the centre of the two major scandals to hit the City over the past year: one is the Guinness affair, where it was advisor to the brewing company in its bid for *Distillers*. The scandal led to the resignation of Morgan's chief executive, Mr Christopher Reeves, and the head of corporate finance, Mr Graham Walsh. The other is the conviction of Mr Geoffrey Collier, former joint head of Morgan Grenfell Securities, for insider dealing. The revelations have severely dented its reputation.

So far, however, all this does not seem to have affected its ranking in the corporate finance league: in the first six months of this year it still headed the takeover advisors' table by a long way, though over the longer term there could be a more negative impact.

Kleinwort Benson, like Warburg, has a substantial presence across the securities market, though in global terms a relatively small capital base. But its integration of brokers Grieveson Grant has not been trouble-free (witness a reshuffle of top executives last March), and rivals question just how effectively the group is pulling together.

Nevertheless, Kleinwort remains one of the most important corporate finance houses — in 1986 it was near the very top of both the flotation and takeover leagues, though at the half-way stage in 1987 it is uncharacteristically some way down the takeover table.

The main domestic competition to the houses with origins in merchant banking is coming from the investment banking arms of the big British clearing banks, with their powerful capital bases. Barclays de Zoete Wedd, the offshoot of Barclays Bank, is one of the strongest, and its merger of leading jobber Wedd Durlacher with broker de Zoete and Bevan seems to have settled down well after some initial traumas.

On the corporate finance side, an area where Barclays has traditionally been weak, BZW has been making considerable progress. Until recently, for example, it was not a serious player in the mergers and acquisitions field, and while it has some way to go to get near the leaders, it was ranked sixth in the bid league in the first half of this year.

National Westminster Bank, by contrast, has had a significant presence in corporate finance for many years through County Bank (now part of its County NatWest securities business), which was set up in the late 1960s and specifically targeted small, fast-moving companies such as Saatchi & Saatchi. As its clients have grown, so has it.

Samuel Montagu, the merchant banking subsidiary of Midland Bank, is also doing well. Its recent successes include the innovative financial package that enabled WPP, a small British company, to launch an audacious $560m takeover of JWT Group, the large American advertising company.

Montagu's success contrasts rather sharply with its parent's difficulties over Third World debt and consequent retreat from international ambitions, as well as the losses suffered by Midland Montagu, the bank's market-making arm, which led it to quit the equity market—Big Bang's first major casualty.

The second major market-making casualty was another clearer, Lloyds, which last month withdrew from the Eurobond and gilts markets, abandoning the global approach in favour of niches. In the field of corporate finance, Lloyds Merchant Bank is a relatively new and small player, hoping to follow the County route by cultivating small companies.

Still, the fact that three of the corporate finance operations owned by the clearers have been highly conspicuous in merger and acquisition work over the past six months underlines the drive—and the capital backing—that the High Street banks are prepared to commit to this area.

The clearers have not been alone in attacking the traditional corporate finance preserve of the merchant bankers. So too have the securities houses which have emerged from a stockbroking background. A few years ago a stockbroker's corporate finance department would play second fiddle to the merchant banks, taking the mood of the market to price share issues and clearing paperwork with the Stock Exchange.

Now, however, they are competing aggressively with the banks to bring companies to market, provide their debt and equity needs and help them with acquisitions.

For example, Phillips & Drew, the broker bought by Union Bank of Switzerland before Big Bang, has greatly expanded its client list over the past few years. At the same time the house, traditionally one of the leading research and equity distributors, has also been one of the most successful market makers since Big Bang.

Similarly, Hoare Govett, now owned by Security Pacific, the American bank, has been aggressively growing its corporate finance side. In the takeover field, it has concentrated very much on the "buy side"—finding acquisitions for clients—and had a major coup last autumn when it advised Elders IXL on its £1.4bn acquisition of the Courage brewing business from Hanson Trust.

The strategy of the large integrated houses is based on the belief that, as the securities business grows more international, and as the equity and debt markets become more intertwined, corporate customers will want to be provided with a comprehensive "one stop" service, backed by large amounts of the bank's own capital.

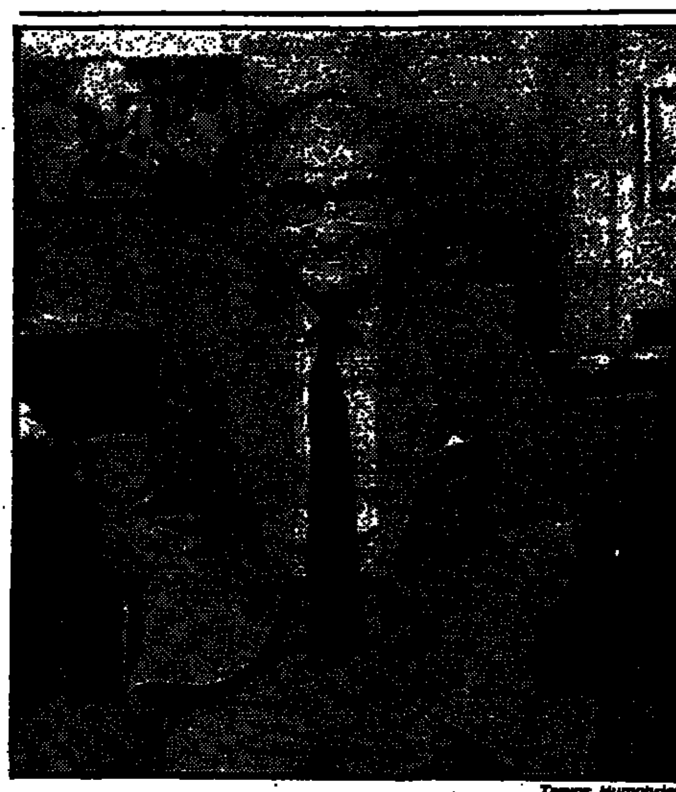
But this view is challenged by the niche-players, one of the more successful of which is Lazard Brothers, the merchant bank, which chose to stand aloof from Big Bang's shotgun marriages. Its client list is expanding rapidly and includes Guinness, which turned to Lazards in its darkest hour, thus underlining the bank's reputation for handling "difficult" companies. Another coup has been the addition to the corporate finance team of two of the most leading advisers from other houses.

Sir John Nott, the chairman, argues that business will continue to go to the best specialist in each field: "If you want money at the finest rates you will get that from the Japanese; if you want good market advice you are more likely to get it from a non-market making broker; and if you want the best corporate finance advisers you will not go to the big house bureaucracies, because that is not where they thrive."

As for financial muscle, he says Lazards' smaller capital base than its big rivals is no great disadvantage: "The one thing not in short supply is money."

There should be room in the market to accommodate the corporate finance strategies of both the integrated houses and the niche players. But ultimately it is for the individual customer to decide which approach he prefers, and as yet the views of corporate Britain are far from clear.

Martin Dickson



Trevor Humphries

Sir John Nott: the best specialist will get the business

Merchant Bank Corporate Finance Activities

Mergers and Acquisitions

Ranking 1986	Ranking 1985	Bank	1986 No.	1986 Value (£m)	1985 No.	1985 Value (£m)	% Change 1985/86 No.	% Change 1985/86 Value
1	1	Morgan Grenfell	99	14,920.50	93	6,794.20	6.5	119.6
2	3	Kleinwort, Benson	115	13,110.80	72	5,022.92	59.7	161.0
3	2	S. G. Warburg*	71	12,000.80	57	4,497.80	24.6	166.8
4	10	Hambros Bank	48	8,338.32	18	787.92	166.7	958.3
5	6	N. M. Rothschild & Sons	38	7,452.00	17	1,859.00	111.8	300.9
6	—	Charterhouse Bank	45	6,914.00	14	571.00	221.4	1,110.0
7	5	J. Henry Schroder Wagg*	59	6,100.80	42	1,777.50	40.5	243.2
8	—	Robert Fleming	62	5,887.20	22	759.65	181.8	675.9
9	4	Hill Samuel*	92	5,565.10	74	3,165.10	24.3	75.8
10	9	Samuel Montagu	34	5,025.80	33	1,256.90	3.0	299.8

Notes:
* 1985 figures restated by the banks.

Flotations

Ranking 1986	Ranking 1985	Bank	1986 No.	1986 Value (£m)	1985 No.	1985 Value (£m)	% Change 1985/86 No.	% Change 1985/86 Value
1	2	J. Henry Schroder Wagg	11	5,845.30	6	*1,885.80	83.3	210.0
2	3	Kleinwort, Benson	10	5,601.36	10	1,676.68	0.0	234.1
3	9	N.M. Rothschild & Sons***	3	5,581.00	2	56.00	50.0	9,866.1
4	1	Morgan Grenfell	7	5,557.80	10	2,063.00	−30.0	169.4
5	5	Samuel Montagu	21	1,952.30	12	*487.50	75.0	300.5
6	4	Lazard Brothers***	4	1,546.40	4	*1,098.90	0.0	40.7
7	6	S. G. Warburg**/***	2	1,032.40	3	322.40	−33.3	240.7
8	8	Robert Fleming	7	520.10	8	66.20	−12.5	685.6
9	—	Baring Brothers	4	420.00	0	0.00		
10	—	County NatWest Bank	12	233.30	4	13.30	200.0	1,654.1

Notes:
* 1985 figures restated by the banks
** Exclude seperate involvement of the Warburg Securities
*** Market capitalisation at issue price.

Rights issues

Ranking 1986	Ranking 1985	Bank	1986 No.	1986 Value (£m)	1985 No.	1985 Value (£m)	% Change 1985/86 No.	% Change 1985/86 Value
1	8	County NatWest Bank**	16	1,600.80	10	203.20	60.0	687.8
2	1	Morgan Grenfell***	14	533.70	12	675.00	16.7	−20.9
3	5	J. Henry Schroder Wagg*	9	455.30	9	386.30	0.0	17.9
4	4	S. G. Warburg*	5	313.30	6	237.20	−16.7	32.1
5	2	N. M. Rothschild & Sons	6	301.00	10	639.00	−40.0	−52.9
6	—	Lazard Brothers	5	297.20	6	50.30	−16.7	490.9
7	6	Kleinwort, Benson****	11	277.63	10	252.34	10.0	10.0
8	—	Samuel Montagu	8	227.40	9	102.50	−11.1	121.9
9	9	Baring Brothers*	3	212.80	4	166.50	−25.0	27.8
10	—	Robert Fleming	9	204.80	8	73.00	12.5	180.5

Notes:
* 1985 figures restated by the bank.
** Two issues—National Westminster Bank plc, value £723.7; and Brown Boveri Kent (Holdings) plc, value £9.4m, not underwritten by the County NatWest.
*** One issue—Redland, value £181.0m, underwritten jointly by Baring Brothers and S. G. Warburg.
**** In addition, seven clients, value £558.85m, for other offers to shareholders; and five clients, value £86.62m, for debentures and tender offers.

Research: Jan Schling

مطابق للأصل

Trevor Humphries

Mr Richard Heley: advantages showed in the Valor deal

Major acquisitions and mergers

in which BZW has advised (first half 1987)

Bidder	Target	Advised	Value (£m)	Outcome
Valor	Yale Security and NuTone	Bidder	287.5	Recommended offer
European Home Products	Scholl Int'l	Bidder	98.2	Recommended offer
Williams Hldngs.	Norcros	Bidder	542.2	Contested bid failed
Hawley Group	Brit. Car Auctions	Bidder	185	Recommended offer
P & O	European Ferries	Bidder	340	Recommended offer

Source: BZW

Profile: Barclays de Zoete Wedd

'Nearly ready to challenge the leaders'

IN THE build-up to Big Bang last year, Barclays Bank was determined that its subsidiary, Barclays de Zoete Wedd (BZW), would be among the most ambitious and aggressive of the new securities houses. But, in spite of its muscle and its preparation, BZW had a weakness.

Through its purchase of de Zoete & Bevan and Wedd Durlacher Mordaunt, BZW was virtually assured of success in broking and market making. It did not, however, have a corporate finance arm to match them.

The problem was reflected in a poll of leading institutional fund managers, conducted for the Financial Times and printed on October 27 (Big Bang day). Of the all-round securities firms, BZW was rated second best in equity market making, third in gilts market making, and fourth in broking. But its corporate finance division was less highly regarded, and for overall performance BZW came fourth.

In the nine months since then, BZW has been slowly building up its workload and reputation as an adviser to companies on flotations, raising money, and acquisitions and mergers. It achieved a considerable success earlier this month, for example, when it advised on the change of ownership of merchant bank Singer & Friedlander from Britannia Arrow to Gilbert House Investments, in a deal worth £143m.

It still has some distance to travel, however, before its corporate finance team can provide serious competition to the best in the field.

The deficiencies of the BZW corporate finance arm were largely a result of the fact that it was built on the foundations of the old Barclays Merchant Bank.

Although BMB was strong on rights issue activity, it was not a serious player in either flotations or mergers and acquisitions. For example, it was never involved in a contested takeover bid.

The appointment as BZW chairman of Sir Martin Jacomb, who had made his name as a corporate finance man at Kleinwort Benson, was intended to change all that. He had to.

Corporate finance is a high income business. In BZW, the 65 executives in the corporate finance team represent only about 8 per cent of the fee-caring staff in the UK, but they provide a far higher proportion of the investment bank's revenues.

And BZW believes that, if it is to achieve its aim of becoming one of Europe's top investment banks, each of its constituent divisions needs to be strong, so that they can feed off each other, and so that it can provide a comprehensive service to its clients.

So far the corporate finance division has made most progress in mergers and acquisitions. It says that, in the first six months of this year, it was the fifth or sixth most active advisor in this area, whereas last year it would not have been in the top 10. It expects its client list to have between 95 and 100 names on it by the end of the year, against 60 or so at the end of last.

Mr Richard Heley, head of corporate finance, says much of the improvement has been achieved through opportunities provided by BZW's parent. Barclays Merchant Bank obviously had close links with Barclays, too, but it was not able to offer the comprehensive service which BZW provides. Mr Heley says BZW's advantages were illustrated in the recent deal by which Valor, the domestic appliance group, quadrupled its size through the £283m acquisitions of US companies Yale Securities and NuTone.

"Our involvement began at 10 o'clock one Sunday night when the local Barclays director in Shrewsbury rang me to say that Valor, his client, had been talking to a US investment bank about funding the acquisition through a massive leveraged deal.

"We sent representatives from corporate finance, selling and research to look at Yale and NuTone, and they came back within a few days convinced that the deal was an attractive proposition and that we could sell it to British investors."

The cash purchases were funded by an open offer to shareholders, which was underwritten by BZW and Hoare Govett. This guaranteed shareholders a fixed amount of new shares, with the facility to top up further. The method was aimed at saving time and money, compared with a conventional rights issue.

The new shares were aggressively priced—at 330p, 1p above the price at which shares were suspended in preparation for the deal. Shareholders subscribed for 45 per cent of them and the rest were distributed by BZW and Hoare. When the shares resumed trading they went to a premium.

A second source of new clients has been through de Zoete & Bevan. It was through its newly acquired broking partner that BZW's corporate finance department was involved in its two biggest merger and acquisition deals since Big Bang. In the first, it advised British & Commonwealth on the recommended £637m acquisition of Exco.

In the second, it represented Williams Holdings in the industrial conglomerate's unsuccessful £542m bid for Norcros. The bid came shortly after BTR had lost its battle to take over Pilkington and publicity about the Guinness scandal was at its height. Sensing that the market was moving against contested takeovers Williams, advised by both BZW and Schroders, did not raise its first offer, and deliberately kept the period of the bid battle short. In the end it failed by less than two percentage points to achieve the 50 per cent of votes it needed to capture Norcros..

"The Williams bid is the one we are most sad about," says Mr Heley. "It was very close and there must always be the feeling that if the offer had gone on longer then we might have won."

Altogether, BZW advised on 23 mergers and acquisitions involving public companies in the first six months of the year. The deals were worth a total of £1.66bn. That was considerably behind the top three advisers, who, according to Mergers and Acquisitions, the FT publication, were Morgan Grenfell, J. Henry Schroder Wagg and S. G. Warburg. But the progress BZW has made since last year gives substance to its confidence that it will soon be challenging the leaders.

BZW's record in flotations and international capital markets—two other key areas of corporate finance advising—has been rather less impressive. Since Big Bang, it has advised on just eight flotations, with Brake Brothers, the frozen food supplier which joined the market with a market capitalisation of £55m, the biggest company involved.

British Steel recently appointed BZW to advise on its privatisation, which is expected to capitalise it at between £3bn and £5bn. Any flotation, however, is unlikely before 1989.

The biggest weakness of the BZW corporate finance department so far has been its international strategy.

Mr Heley admits that, in the fast growing international capital markets, his department has hardly made a start. One problem is that BZW as a whole has still to make its presence felt in this area, but the department's slowness is also a symptom of its client list.

Although the list is growing, it still contains relatively few of Britain's biggest companies, with P & O and British & Commonwealth the only two in the top 50.

Mike Smith

US securities houses

Four causes for satisfaction in the M & A zone

IT WAS sad and ironic that Mr Nahum Vaskevitch made the biggest single piece of news so far in 1987 about the merger and acquisition work of American investment bankers in London.

His abrupt departure from his post running Merrill's London-based merger and acquisitions team, amid allegations of insider trading, was the only piece of scandal to touch US investment bankers in the City in a year of sensations.

In fact, there is a mood of quiet satisfaction among US investment bankers in London with their advances over the past 12 months. Most of them always expected that to develop corporate finance work in London would be a gradual, evolutionary process of building long-term relationships with clients.

First Boston, for instance, has been in merger and acquisition work in London since 1982, and is gradually building up to a total of 26 staff by this autumn.

One measure of their success so far, for instance, is that Goldman Sachs now has Unilever, Pilkington and ICI among its clients. It had already been involved in helping Woolworth Holdings to fight off the bid from Dixons, the electrical retailer — playing the kind of role that has led many observers to see US banks primarily as defence strategists.

Four factors can be identified which, in the past 12 months, have particularly helped to hasten the growth of US banks in the London-based merger and acquisition market — though US banks are also swift to point out that they also use London as a base for European merger work, like First Boston's handling of the purchase of Charles of the Ritz by Yves Saint Laurent.

Those factors should give cause for concern among British merchant banks—which may be uneasily aware that, according to a Euromoney magazine poll, Morgan Stanley, for instance, helped advise worldwide in 1986 on deals worth $50bn—eight times the size of Morgan Grenfell's merger and acquisitions business.

The first and most conspicuous factor has been the trend for British companies to buy into the US when a weak dollar has made American targets look attractive.

Prudential Corporation, for instance, turned naturally to First Boston—well known in the US for its close analytical knowledge of the insurance industry—when in 1986 it sought to make an acquisition in the American life insurance industry.

This was a field where it was highly unlikely that any British merchant banks could deploy sufficient expertise. The result was the Pru's acquisition of Michigan-based Jackson National for £861m. Another, similar, case was the purchase by Sedgwick Group, the British insurance broker, of the Crump Companies in Tennessee—a further deal for which First Boston was the adviser, though here it worked jointly with Rothschilds.

Nor were these isolated cases. According to Acquisitions Monthly magazine, there were at least 216 US acquisitions made by UK companies in 1986, worth a total of $14.3bn. The biggest single deal went to Goldman Sachs—one of First Boston's key US rivals in London, along with Morgan Stanley.

This still leaves the US investment banks open to the charge by British competitors that they still lack any significant appeal as an alternative to a British merchant bank in a domestic UK merger or acquisition. The response from the Americans is to point to a second factor that has assisted them over the past year.

That is the ability of US investment banks in London to add value to their merger and acquisition advice by offering the services of their long-established London-based capital markets associates—especially when a merger or acquisition requires an international equity placing.

First Boston is proud of the fact that it advised Argyll Group in its £681m acquisition of Safeway Food Stores; but Credit Suisse First Boston (CFSB), its capital markets partner, also shared the underwriting of Argyll's associated placing of shares.

This kind of deal has helped US investment banks to shed further their old image of being primarily involved in the UK planning defence strategies for target companies.

"We are actually now committing a lot of capital or acquisitions," says Mr Richard Kelly, vice-president of mergers and acquisitions for First Boston in London. Internationally, First Boston was also one of the first corporate finance firms to offer its clients committed "bridge-financing."

Third is the factor that one US investment banker refers to euphemistically as "the investigations" — meaning the Guinness affair and the insider dealing inquiries by the Department of Trade and Industry.

There is a general feeling — among British merchant banks as well as US bankers — that the Guinness Affair and the role played in it by Morgan Grenfell has weakened some old and exclusive ties between big British companies and their advisers, making them more ready to appoint several advisers rather than relying on one or two.

"Merchant banks could be very tough with their clients once upon a time," says one US investment banker. "Now it's gone the other way."

Similarly, the impact of Big Bang appears to have been to make companies re-evaluate their relationships with City institutions — not least because of concerns about the strength of "Chinese walls" as a guarantee that a merchant bank's corporate finance advice is operating entirely distinctly from its post-deregulation securities side.

So far, it is hard to point to any specific deals or new client relationships where US banks can show that they have directly benefited from this, but they expect the process of evolution to continue.

One intriguing side-issue is that US investment bankers tend to see S. S. Warburg as their chief British competitor, not least because of its distance from the Guinness Affair and its success (so far) in mastering the difficulties of building a post-Big Bang merchant banking and securities conglomerate.

That leaves Lazard Brothers as a special case of a British merchant bank which is seen by US houses as a competitor internationally by virtue of its connections to Lazard Freres in New York and Paris.

Nick Bunker

Lawyers

New pressures in a city of change

CORPORATE FINANCE is a growth business for the small core of solicitors firms in the City that have built up an expertise in the area.

The top firms in the field, probably numbering no more than half a dozen, find that their advice as well as technical knowledge is sought increasingly by companies, merchant banks, stockbrokers, and other financial advisers.

The nature of the demand for solicitors in this field is one of the factors that has brought about a perceptible change in the way in which these firms work. While rigidly retaining their professional culture, a much more commercial and competitive attitude is emerging among the partners in these long-established firms.

Inevitably, this elite core of the legal profession is beginning to reflect something of the imprint of change in the City.

Legal expertise is brought to bear upon the whole range of corporate finance: the raising of equity capital (rights issues, flotations, placings, etc); acquisitions and mergers of quoted companies; management buy-outs; acquisitions and disposals of private companies.

Some of the most exciting and financially rewarding work is on takeover bids and mergers. Lawyers are involved from the very start, taking a lead position on some aspects. Before the bid is announced, they advise on its likely compliance or otherwise with the Office of Fair Trading's requirements. Anti-trust intelligence may well need to extend to that of other countries.

Should the bid be referred to the Monopolies Commission, lawyers will play a lead role. Contacts with key people in the client company for the purpose of establishing information of market share, for instance, will have been made in the stages preparatory to the announcement of the bid.

They advise on tax aspects, along with accountants, as the bid is prepared, and on legal arrangements for the planned financing mechanisms. Their help is essential in the bid announcement, the offer document, and any listing particulars.

If the bid is contested, lawyers increasingly form part of the team of experts which must be able to *respond quickly* and incisively. Some recent bids have resorted to court proceedings. Preparatory work is carried out by solicitors, when the firm's corporate finance specialists will bring in the litigation experts in the firm, and brief their appointed barrister for the court appearances.

Lawyers' increasing participation in the changing world of the City brings its own particular pressures. Mr John Grieves, senior partner at Freshfields, says:

"Solicitors are asked by company boards if a particular action that they want to take is legal. We can come under a lot of pressure sometimes to say 'yes'. And it is getting more and more difficult to give advice on Section 151 of The Companies Act, which relates to financial assistance in connection with purchase of shares by a company. On disclosure, we have to give quite a lot of advice at the outset about what must be disclosed."

City solicitors say that clients expect their lawyers to come down on one side or the other. They are not interested in being told, "you could do this, on the other hand, you could do that". They want to be told what is possible and what is not. They want their lawyers to be constructive, and also to be creative, which makes the whole legal role more exciting.

But at the same time, lawyers also find themselves increasingly cast in the role of "watchdog" in the wake of Big Bang. They are the independent voice of a profession which has *its own rules and sanctions*, not part of the conglomerate of services.

The City firms, however, are well aware that their independence, although desirable, is not sacrosanct. The merger earlier this year of two big firms, Clifford Turner and Coward Chance, surprised the tight legal world of the City, although the rationale of putting the two firms in a more competitive position was well understood.

More disturbing would be a merger between firms in different professions — solicitors and accountants being the most likely combination. Mixed partnerships are not yet permissable. A change in the law, and new rules from the Law Society, would be needed. Neither can be too far away.

Hazel Duffy

Profile : Salomon Brothers

How Next was a US first

THE NEW London headquarters of Salomon Brothers, one of America's most powerful financial trading houses, speaks volumes about its determination to play an equally central role in the European securities business.

The building, soaring above Victoria station, has at its hub the largest financial trading floor in Europe — 13,000 sq ft filled with row upon row of salesman's desks beneath a vaulted ceiling that lends the room an air of a luxuriously appointed sports arena.

Although best known as a securities trader, Salomon has in recent years emerged as a significant US corporate finance adviser — it has some 300 professionals worldwide — and has now set about doing the same in London.

It is early days yet, but the firm has already scored one significant coup: it was joint adviser to Next, the fast-growing retail group, in its recently successful takeover bid for Combined English Stores, defeating a rival offer from Ratners.

Salomon helped to originate that deal, the first time a US securities firm has played such a central role in a large, contested and purely UK bid. However, the bank's inexperience of UK takeover battles was underscored by the fact that Lazard Brothers, the British merchant bank, was brought in as co-adviser.

"We felt that at this stage of our growth we wanted to leave nothing to chance and to take a UK partner," says Stephen Brisby, who heads the UK corporate finance team. However, Salomon alone advised Next on its most recent bid — an agreed £28m offer for the Dillons chain of newsagents.

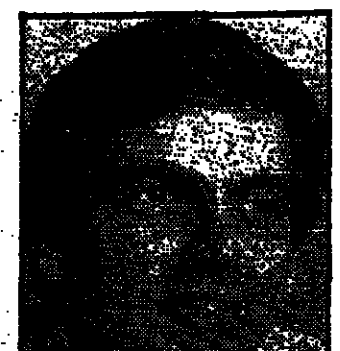
Mr Brisby was lured across by Salomon two years ago from the UK merchant bank Schroder Wagg, where he had spent 15 years gaining experience in UK mergers and acquisitions work, the international capital markets and the bank's Tokyo office.

At the time, Salomon had virtually no presence in UK corporate advisory work, though, as a major player in the international capital markets, it felt it was well positioned to make a mark.

The intertwining of debt and equity products, the development of the swaps market and the growth of the international equities business all meant, says Mr Brisby, that meeting the needs of corporate clients required more and more specialists. "It seemed quite clear," he adds "that UK clients needed a comprehensive approach."

Salomon targeted a cross section of UK companies which it thought could use its particular skills, aiming in particular for major international companies and medium-sized businesses led by fast-moving entrepreneurs. Next, which has grown under the leadership of Mr George Davies, into one of Britain's premier retilers, is a classic example of the latter kind of company.

Salomon began building up a relationship, and last year it took Next into the Euro-equity market with a £48m convertible bond, following this up with a sterling commercial paper issue for the company. When Ratners (advised by Morgan Grenfell, a merchant bank that Next had used in the past) bid for Combined English, Salomon was well placed to pitch in as Next's adviser.



Mr Stephen Brisby

It also gave a demonstration of the financial muscle which could make it a formidable player in the British advisory world. Within an hour of Next's rival offer being announced, Salomon had snapped up 17 per cent of CES's shares.

Salomon has also made a mark in the UK equities market for a succession of American-style "bought deals," where the securities house bids for a large block of a company's shares, takes them on to its books and then sells them on, with the aim of making of profit. One of its first was the acquisition (together with UK broker Hoare Govett) of a £108m stake in British Petroleum which was being sold by Guinness.

One of the most recent was the sale of 9.3 per cent of the equity of Atlantic Computers, a leasing company, in a deal worth £55m. About half the Atlantic shares were placed in the UK, but the rest went to Europe and Japan, where few investors can have heard of this medium-sized UK company.

Cynical rivals question whether Salomon has made more headlines than money with such deals, but Mr Brisby says: "You won't find a more profit-driven company than us on Wall Street, and those deals were among the most profitable I have been involved in—though they did involve risk and view-taking."

Salomon, which did not join the pre-Big Bang scramble for UK broking and market-making firms, is moving only slowly into coverage of UK equities. It started to make markets in UK stocks last spring and at present is doing so in about 17, while the aim is to have built up its team of senior analysts to about 15 by the end of the year.

In corporate finance, as well, the plan is to proceed cautiously: "The key to our policy in the UK," says Mr Brisby, "is to build a broadly based business than concentrates on the long term." At present, Salomon has about 150 companies on which it makes regular calls, but that number should grow.

Martin Dickson

Profile : S. G. Warburg

Financial engineers on the bridge

SOME TIME next year, 1 and 2 Finsbury Avenue will give concrete expression to working relationships within S. G. Warburg Group. The merchant bank will occupy a separate building when it moves next door to the securities operation, but bridges will span the gap to keep the two sides in touch when they need to be.

To complete the picture, however, one would have to imagine additional bridges from each building to North America, continental Europe, Tokyo, Hong Kong and Australia.

Two years after the merger which brought together S. G. Warburg, the stockbroker Rowe & Pitman, the jobber Akroyd & Smithers and gilts broker Mullen & Co, members of the group recognise the merits of co-operation, but have become increasingly aware that the whole depends on the strength of its individual parts.

The appearance of internal independence has become as much a selling point as having all the parties under one corporate roof. Within Warburg Securities, for example, Rowe & Pitman has been retained as a separate name to be used when necessary to avoid offending the sensibilities of co-operating mechant banks.

The decision to forsake Mercury International for S. G. Warburg Group as the umbrella name should be read not as a contradiction of this principle, but as an effort to broadcast that the company is not, in fact, a rival to British Telecom.

Warburg thus feels that it has the best of both words, and nowhere is this felt more than in corporate finance. By nature, merchant banks and stockbrokers approach advice to corporate clients from opposite directions, the former with an eye on the business, the latter with an eye on the market. Warburg combines the two in "financial engineering," a phrase uttered with only a touch of reticence.

As part of its advice to Waterford Glass in the Irish company's successful £250m bid for Wedgwood last October, Warburg came up with a linked-share arrangement to allow UK shareholders to get British tax credits rather than the far less generous and much less useful credits they would have received as holders of Irish shares. The takeover itself could have proceeded without this twist, but the advantage to the shareholders and to the market price bounces back to the long-term benefit of the client.

The merchant bank-broker partnership has proved its merit elsewhere. For British Land, Warburg raised £92m in December through a placing at only a 2½ per cent discount to the market despite the two-for-five issue terms.

Such transactions illustrate Warburg's *emphasis* on the client's long-term interest. It claims to place less faith than other houses in product-driven deals that may later sour investors. "If we give the wrong advice, it will catch up with us,"

Continued on page 9

Accountants

Filling the gap left by Big Bang

ACCOUNTANTS SENSE an opportunity to carve out a bigger role for themselves in corporate finance. This is not just because the area is currently booming, but more fundamentally because of the structural changes since the City Revolution.

In particular, accountants are focusing on the fee-based advisory services which the merchant banks are no longer so ready to provide for their corporate clients.

These days the merchant banks tend to be heavily capitalised, and staffed by very highly paid executives, so they can only prosper when their appetites are satisfied by a constant stream of lucrative capital market transactions.

Before Big Bang they were patient enough to build long-term advisory relationships with clients, and receive an occasional pay-off through fees from issues or takeover deals every few years.

Today, however, the merchant banks' operational gearing is such that they need more regular income. And there is a whole stratum of smaller deals which the major merchant banks, usually now parts of broader securities groups, no longer find it economic to handle.

So nearly all of the leading accountancy firms have formed (or are forming) corporate finance departments and are targeting new areas of business. Peat Marwick McLintock is probably the biggest in this field, as it is in many others; it is a long way ahead, for instance, in flotations on the Unlisted Securities Market.

In some respects, the accountants are only reclaiming lost ground. Back in the 1950s they often used to float client companies, but were subsequently driven back into the audit business by the merchant banks and stockbrokers.

Accountants have always retained a lucrative reporting role in both new issues and takeover bids. This has been the original core business of the corporate finance departments which are now being developed.

In the past few years, basic commercial work in new issues and mergers and acquisitions has been supplemented, for the big firms, by lucrative privatisation business. But now the accountants are adding on a variety of new services as they seek to develop both their advisory and deal-making capabilities.

The limitation, however, is that accountants are not in the risk business. They employ only relatively tiny amounts of capital, and cannot compete with financial institutions in underwriting and other capital market activities.

Peter Hazell, managing partner of Deloitte Haskins & Sells' corporate finance division, one of the bigger contenders, says that he has a team of 10 people handling mergers and acquisitions. Deals are, on average, in the £10m area, but the biggest can range up to £50m.

Finding buyers is a standard service, but financing arrangements have to be handed on to other appropriate institutions.

Nevertheless, Mr Hazell believes that there are increasing opportunities for accountants to give advice on where to go for money. Institutions such as banks are increasingly in the business of aggressively selling products rather than giving advice. This gives scope for independent intermediaries to play an expanded role.

Deloittes is extending this approach into other areas, too. For instance, it offers long-term financial planning advice.

At Arthur Andersen, Michael Oaten, head of M & A, also looks forward to rapid expansion, and expects that his department will adopt the title of Corporate Financial Services in September.

He, too, sees considerable opportunity for guiding client companies through the ever more complex process of raising finance.

Meanwhile, the basic M & A business is active, with some merchant banks tending to refer smaller deals—of £20m and under, say—to Arthur Andersen, on the argument that they can be more economically handled by a firm of accountants.

Connections are important. "The deals tend to come in through our partners' knowing people," says Mr Oaten. But the companies involved are usually not connected with Andersen as auditors.

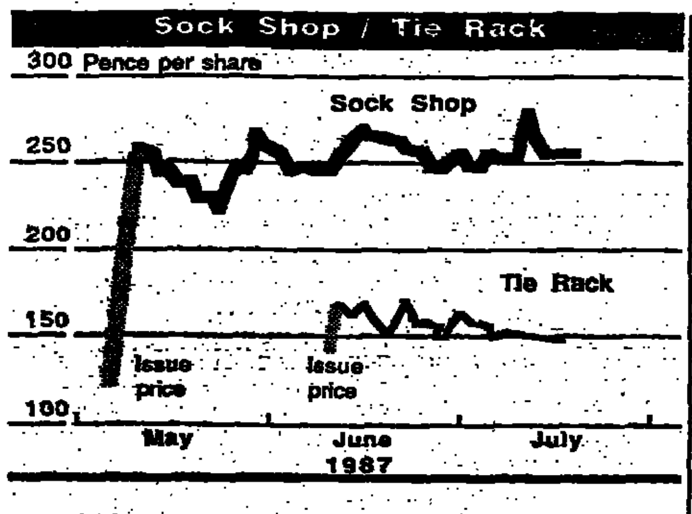
At Deloittes, too, much of the corporate work comes from outside the audit base. The ratio was 50:50 last year, a balance which Peter Hazell hopes to maintain.

At Coopers & Lybrand, senior partner Brandon Gough describes the role of an accounting firm as being in corporate finance support services, rather than corporate finance as such.

Around 20 partners and directors are working in this area at Coopers, although he sees them as being complementary to merchant banks rather than in competition with them.

Barry Riley

Sock Shop / Tie Rack



New Issues

Why the stags came untied

THE FLOTATION of Tie Rack, the tie retailing chain, last month came in for a fair amount of stick from punters accustomed to hefty premiums on new issues.

Just four weeks earlier, the offer for sale of shares in Sock Shop, the socks and tights retailer, had been 53 times subscribed and the shares ended their first day of dealings at a 106 per cent premium to their 125p offer price.

Tie Rack shared many common features with Sock Shop, including an almost identical retailing concept and a similar rate of profits growth. To nobody's great surprise, its offer for sale was even more heavily subscribed—some 85 times. But the shares ended their first day at a relatively modest 16 per cent premium and have fallen back since, hovering most of the time only a few pence above the 145p offer price.

To the stags who had applied for the shares in the hope of taking a quick profit in early dealings, the Tie Rack flotation was a wash-out. But from the company's point of view, and from that of its merchant bank adviser, Samuel Montagu, it is hard to see the issue as anything other than a shining success.

Large premiums, after all, represent a clear opportunity cost to companies being floated. Yet they seem to have been almost unavoidable during the first half of 1987. Up till the end of June, only one new issue (Charles Church Developments) managed a discount at the end of first-day dealings, and the average premium of all new issues was 29 per cent.

Part of the reason why premiums have been so large lies in the strength of the London stock market. The FT-Actuaries All-Share Index rose by 38 per cent in the first six months of 1987. Against that background, shares priced one day looked cheap by the time dealings began two or three weeks later.

Another factor has been the recent pace of the Government's privatisation programme. The last few months have seen no fewer than five privatisations: TSB (a quasi privatisation) and British Gas towards the end of last year, and British Airways, Rolls-Royce and BAA so far in 1987. These flotations—or more particularly, the premiums they have produced—have generated a large amount of private investor interest in new issues.

The third factor has been the Stock Exchange's decision to increase the maximum amount of money which companies can raise through a main market placing from £3m to £15m (£3m to £5m on the USM). This has dramatically increased the proportion of companies using the cheaper and easier placing route. In the first six months of this year, the number of offers for sale on the main market fell from 27 in the comparable period of last year to 11, while over the same period, the number of placings shot up from seven to 36.

The combination of small investors' increased interest in new issues, combined with the difficulty they have in obtaining stock in placings, means that they tend to crowd into the few remaining offers for sale, causing heavy levels of oversubscription and severe rationing of stock. This in turn leads them into the after-market both for placings and offers for sale, so helping create big premiums.

This creates difficulties for the corporate finance practitioner whose task it is to price an issue. In a frothy market, the sponsors know an issue can and should be put on a higher price/earnings multiple than it would otherwise. But just how far should they go?

Take the Sock Shop/Tie Rack episode. Sock Shop, advised by stockbrokers Capel-Cure Myers, was regarded as expensively priced on a prospective price/earnings multiple of 23, yet went to a premium of over 100 per cent. On an historic basis, it ended its first day on a p/e multiple of 107.

When Samuel Montagu came to pricing the Tie Rack issue, it had to take that into account. But director Mr Christopher Clarke says it was only one factor. More important, he looked at Tie Rack's prospective earnings two or three years out, and took soundings among the institutions on what they were prepared to pay for this type of high-growth retail stock. The answer came out at an historic p/e of around 30, so the issue was eventually priced on a multiple of 31¼.

The size of this figure attracted a good deal of hostile comment from the press, but by comparison with Sock Shop's figure, it erred on the cautious side. It was just as well. The Tie Rack issue was even more heavily subscribed than Sock Shop's, but stags were well represented among the applicants and counter-acted the buying interest when dealings began. Within a few days the profiteers had moved out to leave the shares resting on their fundamentals.

Good luck or good judgment? Corporate financiers are fond of saying that there is no such thing as an issue which cannot be accurately priced. This example seems to confirm it.

The only flaw in the argument is that Sock Shop is still on an historic p/e multiple of over 100, while Tie Rack is on a mere 33. Admittedly the companies have different year-ends, but there is no rational basis for such a wide discrepancy between the two ratings. This suggests that pricing an issue (at least, a small one) is much more an art than a science—and a pretty hazardous one at that.

The BAA issue has raised the thorny old question of whether a tender is not the more reliable way. Morgan Grenfell has in the past been a keen proponent of this method, but the unimpressive outcome of its own flotation, and that of Virgin last year, appears to have confirmed the rest of the City in its view that tenders are not to be trusted. BAA apart, there has not been a single attempt at a tender so far this year.

Richard Tomkins

Financial engineers

Continued from previous page

says Mr Derek Higgs, head of corporate finance.

The teamwork approach, he argues, is also in the client's interest. "When it comes to the collective summoning up of nerve, you do that much better in-house where everyone stands or falls on the decisions you make." Competition between integrated houses, unlimited by national boundaries, is the wave of the future.

Although Warburg has a co-ordinating group seeking opportunities to cross-sell services, Mr Higgs says: "We are not in the business of arm-twisting." Since the merger, companies numbered "in double figures" have consolidated their merchant bank and broking relationships within Warburg.

On the mergers and acquisitions front, Mr Higgs sees a shift to what he describes as "perfectly sensible business combinations." These have the additional benefit of being agreed, short and sweet.

Since mid-June, Warburg has acted for International Thomson in its £210m takeover of Associated Book Publishers, for Stewart Wrightson in its £254m insurance broking merger with Willis Faber, and for Reed International in its £535m acquisition of Octopus Publishing. Mr Higgs also expects to see more shuffling of divisions between companies as in the disposals by TI Group, for which Warburg acted, and the purchase by Williams Holdings the paint and DIY interests of Reed, for which the bank did not act in this case because it perceived a possible clash of interests with another client.

He foresees a slack period in the UK for one arena of M&A activity: "There are very few possibilities of mega-contested bids because there are very few companies with demonstrably underperforming or inadequate management."

Warburg is getting in shape, however, for cross-border M&A business, with a new Tokyo office to co-ordinate equity issues and listings in Japan, outward Japanese investment, and—when the day finally dawns—takeover activity within Japan. Most transactions involving the US have seen Warburg representing a UK client, although it advised Warner-Lambert in its acquisition of UK toiletries tiddler Henara. At present, all bridges lead back to London on lines broken down by function. Warburg is aiming, however, for deals involving the US, continental Europe and Japan which have no UK connection at all.

Clay Harris

Junior markets

Confounding the cynics

SMALL BUSINESSES have emerged as one of the most dynamic areas of the economy in the 1980s. In January this year the Stock Exchange paid tribute to their vitality by creating a new forum—the Third Market—to trade in the shares of small, growth hungry companies.

The Third Market was conceived as a centre for dealing in the shares of businesses too young, too small, or too risky to seek quotation on the main stock market or the Unlisted Securities Market. The exchange envisaged the third tier as a less rigorously regulated, more flexible forum in which companies could trade their shares before graduating to the more established markets.

Thus the Stock Exchange has attempted to strike a balance between offering as relaxed a regime as possible to third tier companies, while safeguarding the interests of investors. Its solution has been to restrict sponsorship and market making in the new forum to its own member companies, and to delegate responsibility for scrutinising prospective recruits to those firms.

City cynics argued that this was, at best, a clumsy compromise. Member firms, they argued, would be loath to risk their reputations by bearing the responsibility for sponsoring such small companies; while the reputation of the exchange itself could be tarnished by the sort of scandals that have hounded the unofficial over-the-counter market.

Yet the cynics have been proved wrong on both counts. A large number of member firms—rather more than expected—have indicated an interest in acting as sponsors. And scandal has been conspicuous by its absence in the first few months of the new forum.

That said, the Third Market has not been quite the success that the Stock Exchange had hoped. After a flurry of interest in the opening week, the turnover of shares in third tier stocks has been distinctly dull, at an average of £2m a week. It took four months for the Third Market Index—composed by the stockbrokers Credit Suisse Buckmaster and Moore—to regain its original 100. Moreover, despite rumours of there being hundreds of companies poised to join the new forum, the flow of new issues has been unexpectedly slow.

It would be rather premature to dismiss a market which is no more than six months old. In many ways the pattern of trading is remarkably similar to that experienced by the USM on its introduction six-and-a-half years ago. Trading was listless in its early days, but the USM has since gathered momentum to emerge as an undisputed success.

The Third Market also faces problems which the USM was spared. In devising its new forum, the Stock Exchange decided to allow the mineral exploration companies—hitherto traded under its Rule 535(5) mechanism and precluded from joining the USM or main market—to be quoted on the third tier. So far these mineral stocks—and one, Eglinton Oil and Gas, in particular—have dominated dealings on the third tier, thereby exerting an unduly depressive influence on the Index.

Thus, while most of the small companies have fared well—several have seen their share prices double since January—the misfortunes of Eglinton and its fellow mineral stocks have distorted perceptions of the Third Market's progress. But eventually, as more "conventional" companies join the third tier, Eglinton's influence will wane.

Meanwhile, the new market has mustered something of a resurgence in the last month or so. First, investors' interest has rekindled. Mr Brian Winterflood, managing director of County the largest third tier market maker, reports a firmer pattern of trading. Second, the new issues market has been livelier with a steady stream of new recruits joining the third tier.

Moreover, some of the stocks already quoted on the new forum have been remarkably active at a corporate level. Corton Beach, a holding company, has augmented its interests in food, fashion, cars and leisure with a string of acquisitions. The marketing groups, Catalyst Communications and Publishing Holdings, have also taken advantage of their publicly quoted status to expand.

The future for the Third Market looks livelier still. When the Financial Services Act comes into force in September, it will impose such draconian restrictions on "unofficial" share dealings that it is difficult to see how the over-the-counter market can continue. The OTC dealers may have acquired a rather raffish reputation, but their market has attracted some interesting companies. In September many of these stocks are expected to transfer to the third tier.

Similarly, the first tranche of the Business Expansion Scheme will come to fruition next year. Since its inception in 1983, the scheme has provided finance for hundreds of small companies, many of which are "locked into" BES funds for a statutory five-year period. The first flow of funds will be released in 1988, and many of those companies may turn to the Third Market as a source of new capital.

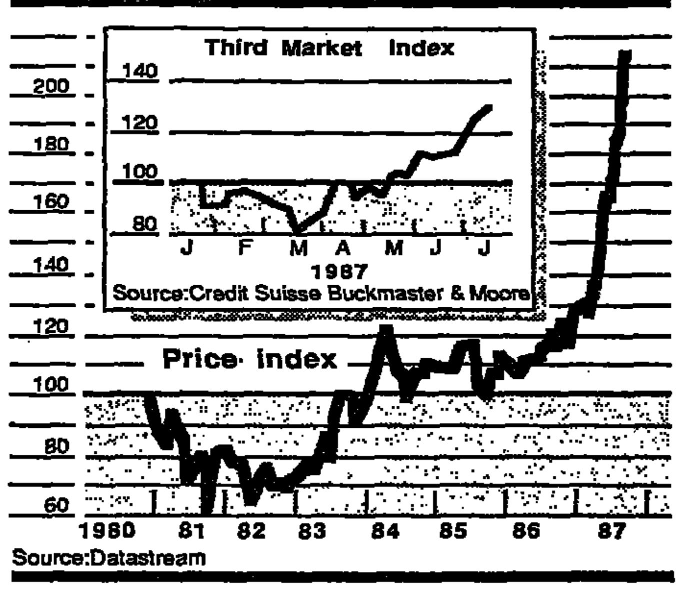
When plans for the formation of the third tier were first mooted, it was feared that the new market would jeopardise the security of the USM. In the approach to the Big Bang, concern mounted that the USM, and the small companies quoted on it, would suffer in the new more competitive environment of the City of London.

A number of market makers—or jobbers, as they were then called—withdrew from small companies trading. Several new issues, which had originally considered going public on the USM, opted for flotation on the main stock market. The flow of larger USM stocks "graduating" to a full listing accelerated.

After deregulation, or so the theory went, these pressures would intensify. Moreover, just as the USM was losing its larger stocks to the main market, so smaller companies would plump for the less rigid environment of the Third Market. So far these fears have proved to be unfounded.

Alice Rawsthorn

The Unlisted Securities Market



International equities

Obstacles slow the path to a global market

THE GLOBALISATION of equity markets is proceeding apace. But recent developments in Britain have not only cast doubts on the ability of British companies to participate in the trend, but also challenged the very basis for it.

In the world's capital markets, the focus of securities houses is increasingly on equities and equity-related products such as convertible bonds and bonds with equity warrants attached.

Investment banks have been driven to develop their capabilities partly because of intense competition in the bond markets: though government bonds are increasingly attractive as liquid trading vehicles, it is becoming tougher and tougher to make money out of corporate debt issues in the international markets.

Furthermore, equity markets have been booming while dollar bonds, which have made up the largest proportion of the market, have been faltering on rising interest rates and the fear of further increases.

Technology has facilitated the growth of a cross-border market in shares—a market which the Stock Exchange in London intends to dominate by offering a comprehensive quotation service, which will centralise what has been fragmented telephone trading.

The shares of a group of several hundred companies have come to be seen as globally traded shares. Investment managers have been offered a new range of indices—including the FT-Actuaries World Indices—against which to measure their performance.

And new issues by companies of many nationalities, including most British privatisations, include a tranche of shares sold internationally.

Given all this evidence, it would appear that the world is moving easily towards a global marketplace for equities. The reality, however, is that the path is not smooth at all.

Vast differences in the methods of valuation of stocks in different countries—with price/earnings ratios of over 50 in Japan and in the teens in the UK—underline the different conditions which apply in each domestic marketplace. Accounting and tax environments differ. Attempts to harmonise new issue prospectus requirements are proving difficult.

Inadequate means of registering and settling trades in some countries either cause deals to fail, or create costly delays while traders wait to receive delivery of shares.

And most recently, British shareholding institutions have asked fundamental questions, as well as setting restrictions, which make it difficult for all but the largest British companies to issue shares in international markets without first offering them to existing holders.

Institutions control between 60 and 70 per cent of the equity of British companies, so their protestations cannot be ignored by treasurers anxious to enter the exciting world of international finance.

The institutions argue that international issues—as well as other share issue mechanisms, such as vendor placings used to finance acquisitions—dilute their holdings and, in essence, cost them money.

Mr David Tucker, managing director of M&G Securities, a major investing institution, argued in a recent issue of The Treasurer magazine: "Every time shares or convertibles are issued to third parties, the existing shareholder surrenders part of his equity."

He said it was "dangerous thinking" for treasurers to believe that shareholders were concerned only about earnings per share and share prices, and not about the proportion of equity their shares represent.

"For this can lead directors to become preoccupied with share price performance and maximising short-term earnings, rather than concentrating upon the management of the business as a whole for the long-term."

Institutions argue that, rather than offering companies access to the cheapest finance, international issues often mean significant costs to shareholders, either from dilution or from the fees and commissions involved. They also point to the occasions when convertible bonds have risen rapidly to premiums in the market.

Ashley Ashwood

"... and then there's something they call the p/e ratio"

The effect of institutional resistance has been drastically to slow the issue of convertible bonds by UK companies, issued mainly in the Eurosterling market. Fisons was forced to withdraw a share issue, and Beazer reduced the size of one.

The Association of British Insurers told companies that it would not sanction issues representing more than 2.5 per cent of issued equity, compared with 6.7 per cent previously. The National Association of Pension Funds similarly expressed opposition, though its line was less hard.

Treasurers, vociferously egged on by their investment bankers, argue that they must develop a broad shareholder base which provides a strong underpinning for their share price and give their companies greater flexibility in timing share issues.

"The UK represents less than 10 per cent of world stock market capitalisation, and for British companies to ignore the availability of external finance is short sighted," the Treasurer magazine argued in an editorial. (Most treasurers are not anxious to speak out individually on this issue for fear of upsetting their institutional shareholders.)

A broad shareholder base, many treasurers and bankers argue, cannot be developed by persuading investors to buy in the secondary market. "There is a view that overseas investors can be attracted simply by good investor relations and road shows. While these are necessary to support an overseas issue, they cannot in any way substitute for the impact of a new issue that forces a large number of dealers and investors to make a decision to invest," The Treasurer argues.

Additional arguments are that issues need to be of a certan size to be marketable and justify expenses; that British companies need access to the innovative techniques of the international markets; and that the need to broaden the recognition of their names, so that they can more easily sell both other securities and their own products.

Treasurers argue that issues of convertibles or equity warrants do not necessarily involve dilution of existing shareholders' interests.

Noting that it was the management of one of Britain's best performing companies—Fisons—which had to withdraw an issue, The Treasurer says: "The key issue surely is for shareholders to back successful management teams, and remove incompetent management but otherwise let them get on with the task in hand."

The argument is not yet over. British companies' access to the international markets does look like being limited. But since this will force them into making more rights issues—the traditional method of raising finance—the result could be a reduction in the costs involved, through underwriting commissions, in rights issues as well as a streamlining of the cumbersome issuing procedures.

Alexander Nicoll

Small company finance and venture capital

Backers look for experience

TALK TO any venture capitalist, and he will bemoan the shortage of attractive business ideas to back. Talk to any small businessman struggling to set up or expand his company, and he will complain about the difficulty of raising funds.

Despite the rapid growth of the venture capital industry in recent years, the launch of the Business Expansion Scheme and the growing interest of government and banks in the small firms sector, finance remains a major problem for many small businessmen. What has gone wrong?

Part of the problem is that, despite the rapid growth in the funds on offer to the smaller business, demand has outstripped supply. Instead of attempting to find another job, or adapting to life on the dole, the skilled blue-collar worker is now more likely to set up on his own account.

The frustrated manager no longer bites his tongue when the board rejects once again his ideas for developing business. He is just as likely to gather a group of colleagues to propose a management buy-out, or even offer his services as part of a buy-in team to be parachuted into another business. This all means that the providers of funds can be more choosy.

Equally, entrepreneurs frequently look to the wrong source when they go out to seek funds. With the notable exception of 3i (Investors in Industry) few venture capitalists are interested in providing sums of less than £100,000, and for many the lower limit is £250,000. The cost of monitoring smaller and usually higher risk investments mean they must restrict their activities to a relatively small number of larger investments.

The venture capitalist is seeking such a high return from his portfolio that only companies which look likely to achieve very rapid growth will get his backing. He usually expects to have one or two spectacular successes, a similar number of outright failures and several companies which just potter along. He must start with a full card of potential winners to achieve even this result.

It is not uncommon for a medium-sized venture capital fund to receive 500 applications for finance in a year, to look more closely at 200 of these and then to back only five.

The business most likely to get the venture capitalist's backing will be run by a team of experienced managers who have come from a larger company and who display a mix of marketing, production and financial skills. The one least likely to succeed is the individual skilled employee with a good idea for a product or process, little appreciation of how to market it and no management experience.

The fact that some very successful businesses have been set up by blue-collar workers finds little response in the venture capital community.

The would-be entrepreneur does not always present his case to the financier in the most effective way. Many are poor at presenting a business plan, do not understand the financial implications of what they are proposing and are reluctant to give up a share of their company in return for their financial backer sharing in the risk of the enterprise.

"Many businessmen take the view that the money they invest belongs to them but that the venture capital funds belong to nobody," complains one seasoned investor.

"I'm not going to give away a share in a business I've risked everything for and spent years building up," is the view taken by many an entrepreneur.

Despite these differences of outlook, venture capital has come to play an increasing role in the funding of small business during the 1980s. From just 20 UK funds in 1979, the industry has grown to more than 110. The 77 members of the British Venture Capital Association, the industry's main representative body, invested £426m in 708 companies (most of them British) in 1986. These represented increases of 31 and 11 per cent respectively over the previous year.

But the BVCA's statistics confirm the move to larger and safer investments. The average size of new investments rose to £459,000 from £368,000, while the share taken by relatively safer buy-out and acquisition funding rose from 37 to 45 per cent.

If venture capital is not available, the small businessman can turn to the Business Expansion Scheme for finance. However, despite the success of the scheme in encouraging investment by individuals by means of tax breaks, the BES suffers from similar limitations to venture capital.

BES fund managers seek to restrict their investments to a limited number of larger projects so that each can be monitored effectively. And despite the tax concession which is meant to encourage the taking of risks, the managers naturally seek to reduce their exposure by backing safer ventures.

BES funds are not being used to back the riskier start-ups for which they were originally intended, many entrepreneurs complain.

The banks, of course, provide the bulk of funding to small businesses, though this is rarely in the form of equity. It usually takes the form of an overdraft facility or, increasingly, term loans. Branch managers are not always equipped to respond to the demands of a fast-growing business, so the banks are starting to create special teams of managers to handle medium-sized corporate clients.

Banks are also moving cautiously into the provision of near-equity to small firms. National Westminster Bank recently launched what it calls its capital loan scheme. It will provide a loan of up to £200,000 with options attached to allow the bank to take shares in the company at a later date.

An increasing role in the provision of loan finance for small businesses is being taken by the enterprise agencies, local authorities and private trusts. The sums are often quite small, however, and sometimes restricted to younger borrowers.

The enterprise agencies, private sector-backed organisations which provide advice and assistance to local small businessmen, are frequently able to channel small amounts of money, of £1,000 and more, which they have obtained from their commercial backers, into local small firms. The Shell Enterprise Loan Fund, for example, provides up to £5,000 a time for working capital or fixed asset investments to small businesses through the enterprise agencies.

The Princes Youth Business Trust, which has the backing of the Prince of Wales, provides financial backing and advice to young people between the ages of 18 and 25, while the Young Entrepreneurs Fund, set up by Sir Philip Harris, of the Harris Queensway stores group, makes investments of £50,000 to £100,000 in small firms with potential.

Local authorities around the country are also providing funds to help small firms to grow, often working through their local enterprise agencies. Milton Keynes Borough Council finances a seed capital fund, while Berkshire County Council provides start-up loans of up to £1,500 to young business people who have been refused bank loans because they cannot provide collateral.

Charles Batchelor

Sources of funds to smaller businesses

Amounts invested per company (£'000)

Source	Year	Usual range* Min	Usual range* Max	Total per annum	% Change on previous year	Total outstanding or total raised
USM	Oct '84/ Sept '85	950	3,000	257,400	33	816,200
OTC (Non-BES)	1985-86	150	2,500	24,000	−62	122,200
BES (direct)	1984-85	8	250	101,000	53	167,000
BES (funds)	1984-85	50	500	46,000	18	85,000
Venture capital†	1985	250	750	279,000	22	857,000
3i	1985-86	14	700	260,000	−3	1,190,000
Loan Guarantee Scheme	1985-86	15	75	17,750	−74	‡563,000
Bank lending	To date	na	na	na	na	§23,000,000
Local Enterprise Boards	1985	¶100	¶750	18,000	‖	‖35,000

* To cover 80 per cent of financings, ie ignoring 10 per cent extremes. † Figures include BES approved funds. ‡ To October 1986. § Estimate. ¶ Figures are for West Midland Enterprise Board. Other boards tend to lend at lower levels. ‖ First full year for some of LEBS, therefore growth figure would be misleading.

Sources: National Economic Development Office, Financial Times, 3i, Hoare Govett, Inland Revenue, Venture Economics, Department of Trade and Industry, Touche-Ross, Peat Marwick.

Convertible Euro-sterling bonds

Protest restrains issues

THE INCREASED enthusiasm of overseas investors for sterling securities provided an unusually wide window of opportunity for British companies to tap the sterling Eurobond market during the first few months of this year.

But many companies were still finding the rates available in the straight fixed rate bond market prohibitively expensive. So the bond convertible into shares emerged as the favourite issuing vehicle, since the euphoria surrounding the UK equity market meant that borrowing costs could be sharply pared on an issue incorporating an "equity kicker."

One finance director said: "The arithmetic wouldn't have worked 12 months ago. But this year the strength of our share price made the argument for locking into long-term funds through a convertible issue irresistable."

A sprinkling of issues before Christmas set the scene, but during the spring the surge in British convertible offerings assumed rollercoaster proportions. By the end of May, 16 companies had launched convertibles raising £1.19bn (Euromoney Bondware).

Retailers were particularly active, with such companies as Asda-MFI, Burton and Storehouse among the first to get in on the act. This reflected both their heavy capital expenditure programmes, creating a need for long-term finance, and the attractive terms that became available as European investors looked with friendly eyes on the retail sector of the UK stockmarket.

Now, however, the pace of issuance has slowed noticeably. This is partly because of more uncertain stock market conditions in the wake of the general election, but undoubtedly is also linked to a wave of protest from UK institutional investors against the licence that companies were taking in issuing new equity.

During April, the insurance companies and pension funds issued guidelines sharply reducing the number of new shares that companies could issue, other than to existing shareholders, without gaining special approval. The guidelines cover convertibles, since, assuming they are converted, they amount to equity offerings; although the dilution effect is deferred, since the bonds are exchangeable at a price higher than the share price at the time of issue.

The institutions became alarmed about the convertibles when they saw them trading at massive premiums to issue price, which they said proved that the bonds were mispriced and that a transfer of capital value from existing shareholders to the buyers of the bonds had taken place.

Since these guidelines were issued, companies that have ventured into the Euroconvertible market, such as P&O and the Dee Corporation, have had to tread with great care.

Dee Corporation, for instance, put itself to the pains of saying in the press release that accompanied its issue in June: "We have carefully examined the financial implications of the issue and firmly believe that it represents an excellent transaction for Dee and its shareholders."

It seems clear, with the benefit of hindsight, that many of the bonds were issued on overly cheap terms. A deal for Burton launched early this year, for instance, traded as high as 10 points over its issue price. But it is easy to imagine that there was some wariness among insurers about queering the pitch for later international issues by overpricing their first offerings.

And the convertible issue, if properly priced, has several distinct advantages which arise from its hybrid status, straddling the debt and equity markets. Mr Neil Ryder, head of corporate communications at BET, said of BET's issue last October: "First, it was a way of raising relatively cheap long-term money. But it had added advantages of getting our name better known in overseas financial markets, and possibly broadening the shareholder base."

The arguments for widening a company's shareholder base are perhaps losing their lustre in the face of UK institutional concerns over the concept. But there are nevertheless clear potential advantages in doing so especially where a company conducts much of its business abroad.

And companies of all types can be keen to widen the markets for their shares, because it alleviates the pressure on the domestic market, and can help to limit share price falls and discourage unwanted predators by broadening the range of influences on a share price.

For BET, the convertible bond formed an early stage of an overall programme of extending its shareholder base, which includes: a listing of its shares in the US planned for next month, two Euro-equity placings already completed, and a projected listing of shares in European centres.

The main alternative that finance directors could have chosen in the equity linked debt market was the bond with warrants to buy equity attached. This also reduces the cost of funds, but is not so likely to achieve the wider shareholder base, since the warrants tend to be traded speculatively rather than reaching firm hands.

In the case of convertibles, it is clear that an unquantifiable flow-back into the UK occurs both before and after conversion, but bankers believe that at least a proportion of the issue remains in continental hands.

Where a wider shareholder base is a priority for a company, a more direct route would of course be to issue the shares directly. But this is not easy for many companies whose names are not familiar to overseas investors, some of whom are in any case not able to buy shares that are not locally quoted.

European investors tend to prefer convertible bonds to direct issues of shares because, in some countries, the taxation treatment of the coupons is favourable, but more generally the investors' downside risk is limited.

In the worst case, if the share price does not perform, the purchaser is left holding a fixed interest bond providing capital protection. Particularly attractive are the bonds which include options for the investor to "put" the bond after a period of time; these are priced to give a yield broadly equivalent to the yield on a comparable gilt.

Now that the precedent has been set by this year's rash of issuing, it seems likely that British companies will become established visitors to the convertible bond market.

But the rich pickings which accrued to the investment bankers during the heady days in the spring of this year—when bonds bearing high coupons, low conversion premiums, and put options, too, shot to immediate premiums—are probably over. After the outcry from British shareholders, the pressure is now on for a bond to trade at around issue price.

Clare Pearson

IF A banker had been put in deep freeze a few years ago, he would come back bemused at the bewildering range of new concepts and financial instruments that have encroached on his traditional world.

Finance has been disintermediated, globalised and securitised. A whole range of new forms of credit have encroached on traditional lending, including: commercial paper, Eurobonds and multi-option facilities.

One of the most striking trends our thawed-out banker would see is the banks' traditional lending role being by-passed — disintermediation — in particular by the largest corporations. Instead, multinationals are raising funds by directly selling debt contracts as pieces of paper (securities) on the international capital markets — securitisation.

But the trends are far from clear cut. In some cases modern techniques are complementing traditional lending, while in other areas old-fashioned credit is holding its own or even fighting back.

New forms of debt provide opportunities as well as problems for the banks. The commercial banks are worried about their traditional customers going to merchant banks and foreign institutions. But the Midland's global corporate banking director, Mr. David Potter, welcomes the emergence of the commercial paper market as "extremely good news".

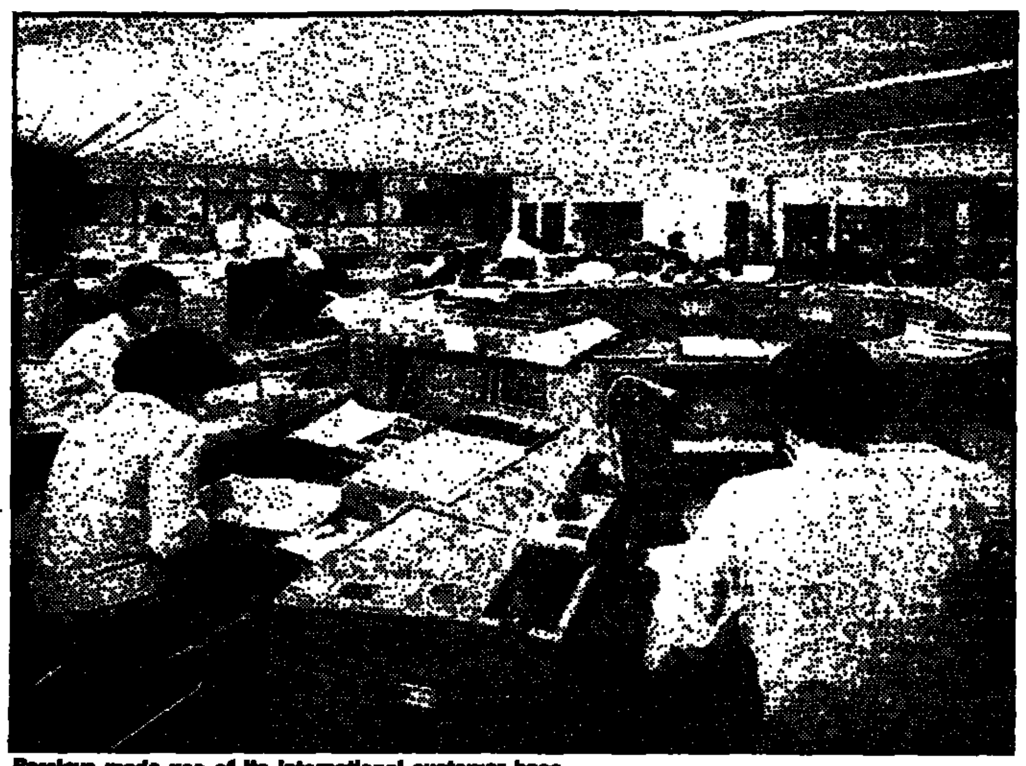
"For customers who were borrowing short term we can instead arrange commercial paper programmes. At the same time, if we can sell that commercial paper to people who would otherwise have deposited with us, we keep the relationships on both sides and contain our balance sheet," says Mr. Potter.'

Traditional lending is also far from dead. The volume of syndicated loans internationally, for example, rose from $42bn in 1985 to $48bn in 1986.

"Not so long ago the market was saying that syndicated credits were dead," says Mr Alan Jones, director of commercial banking services for NatWest. "Now there's been a tremendous resurgence of syndicated credits through multi-option facilities. If you like, this is still traditional bank lending but packaged in a new way."

It is also possible to enhance traditional lending by using modern risk management techniques and access to the capital markets. For example, a bank could arrange an interest rate swap between a bond issue it is arranging and a traditional borrower.

Traditional medium term lending is also still healthy. For example, many airlines are using leasing to finance their re-equipment phases.



Barclays made use of its international customer base

Commercial bank borrowings

Pick your instruments for the paper market

Overall, the traditional overdraft is still the most popular instrument with medium and small companies. For larger companies, although a relatively expensive form of finance, the overdraft remains a useful standby.

While there has certainly been rapid growth in securitised credit in recent years, the commentators agree that it is virtually impossible to quantify accurately the changes taking place. Many deals that take place in both the capital and credit markets are excluded from published statistics.

For the largest companies the banks are arranging deals rather than providing funds themselves. In this sector the banks are deriving their income increasingly from fees rather than interest.

Although the changes are most striking within the largest companies, which are generally multi-banked, new techniques are also being used by smaller companies. "The trend is to move down market, but in a less sophisticated form," says Mr Paul Borrett, the divisional general manager of Barclays' corporate division.

Medium sized companies may not be big enough to issue their own paper on the international markets, but banks can give them the oppportunity to make use of new instruments. Banks can give mid-corporates access to multi-option facilities for example. They can also arrange access to other sources of funds such as the stock market and the USM.

Among the smaller companies, although many of the more sophisticated new instruments will be of no use to them, there are competitive pressures on traditional bank lending. For example, there are several venture capital funds eager to lend to medium-size and small companies.

The big four banks differ in the enthusiasm with which they have plunged into using new instruments. But none of them has been able or willing to stay still in a rapidly developing market:

●Barclays, with its Barclays de Zoete Wedd securities arm, is heavily into the new instruments. Although it recognises that it is impossible to be first in all instruments, it plays almost all of them. Barclays also specialises in specific areas of lending, such as industrial lending, and makes use of its international customer base.

●Lloyds has a reputation for being the most traditional in its lending. But the bank claims to be active in the new instruments, and points out it has 11 out of the 32 commercial paper dealerships. It vehemently denies that its recent withdrawal from market making Eurobonds will affect its ability to provide new instruments to its customers.

●Midland has a focused strategy which relies on its being a "British bank first and a European bank second". For Midland, its traditional lending is a way of developing a relationship with new customers. Once relations are established, Midland Montagu, its "investment banking product factory", can offer a wide range of securitised products.

●NatWest is probably the most aggressively into the new instruments. We've changed enormously within our organisation to recognise the change in the market place," says Mr Jones. NatWest claim to be in all the new instruments.

What the main banks have in common is an emphasis on the importance of long-standing relationships with customers. In contrast, transactional banking, where institutions organise one-off deals at the least cost to the customer, may have short term advantages but, they also have drawbacks.

"At the end of the day we have many aces in our hand," says Mr Borrett. "These include a customer base, good will on both sides, trained staff and a reputation."

Corporate treasurers tend to echo the bankers' view, but with some qualifications. At one of this year's Gilbart lectures, Mr Archie Donaldson, former deputy treasurer of ICI, stressed that, "No corporate treasurer can afford to make the assumption that his company's business is so robust as to be inviolate, and the experienced ones are encouraging their bankers to maintain a relationship-based approach." However, he went on to say that "it is not the task of the corporate treasurer to pay more for any specific transaction than is dictated by the market."

With such a rapidly changing financial scene, companies are coming to recognise the importance of maintaining long-term relationships with banks. "You have only got to have a major hiccup and there will be a flight back to quality," says Mr Jones.

A default in the commercial paper market, for instance, would bring about rapid changes.

Indeed, it is important to remember how unusual circumstances are today. The new instruments have proliferated at a time of market boom and high international liquidity.

Market volatility is underlined by the recent flutter in the Eurobond market, following America's decision to terminate its tax treaty with the Netherlands Antilles, and the earlier collapse of the perpetual floating rate note market.

The increasing dependence on capital, rather than credit, markets is in some ways a reversion to the situation in the mid 1960s. Today, though, new technology increases the potential range of financial products available.

Daniel Ben-Ami

Sterling and Euro-commercial paper

Weakness of the dollar prompts intervention

IN THE first six months of this year, both of the markets in commercial paper which are centred in London made significant strides toward maturity.

In Eurocommercial paper, growth continued in the amount of outstanding debt and in the numbers of issuers and investors. Some issuing houses now estimate that the market has grown to $35bn, even without Euronote issues supported by a back-up line of credit, and there are roughly 450 programmes in place.

Sterling commercial paper, while a much smaller market and destined to remain so, passed the £1bn mark for the first time in April, one year after its launch. The growth of the market has nevertheless disappointed some of its advocates, and the signals now being sent by the Bank of England statistics contain grounds for hope but are by no means unambiguous.

Probably one of the main influences on the Eurocommercial paper market in the early part of the year was the weakness of the dollar and the heavy foreign exchange market intervention that it prompted.

This had an influence on the market in a number of subtle ways. Fears of a collapsing dollar do not seem to have led many investors to take fright: most avoid currency risk, either because they are natural investors in dollars or they use the swaps market fully to hedge their risks.

But the intervention meant that many European central banks were increasing sharply their holdings of the US currency and looking for places to invest them.

This they did, according to tradition, in the US Treasury bill market. This depressed bill yields, which in turn helped to push yields lower for high quality non-bank paper in the US domestic markets.

For US corporate issuers, this meant that it was significantly cheaper to issue paper through the US markets than through Euro-commercial paper. This was accentuated by the fact that yields in the ECP market are based on bank deposit rates, which were being pushed higher because of credit concerns linked mainly with the Third World debt crisis.

The differential between yields on US bills and on top-rated sovereign paper in the ECP market became too high for central banks to resist, and they moved into the ECP market in some force to provide a major spur to its growth.

Toward mid-year, central bank intervention slowed and their profile in the ECP market has slipped again.

In recent weeks, the pattern has see-sawed, so that yields in the ECP market are now competitive once more with those in the US.

Dealers also say that the number of investors in ECP has grown as more and more domestic capital markets develop. The growth of the French commercial paper market, for example, has spurred French institutions to look at ECP as an alternative investment which they can swap back into francs.

In many areas it is thus clear that the ECP is still regarded by many borrowers and investors as an opportunistic or marginal market, rather than one which is central to their investment or funding policy. So they buy paper, but only if an advantageous currency swap exists; or, if the ECP market is not competitive with that in the US, they issue in New York.

There has also been less concern in Europe than in the US with the credit quality of banks, so the imperative to find alternatives to bank deposits for many short-term investors has not been so strong.

The sterling commercial paper market also has that opportunistic quality, and here again currency intervention appears to have played a role in this year's market development.

There are about 80 programmes in place, and slightly over half had issued paper by the end of May, when £1.37bn was outstanding, Bank of England figures showed.

Sterling CP is a late-comer to the financial scene in the UK, where a sophisticated corporate bill market has existed for centuries. Rates available in the *bill market (plus the banks'* acceptance fee of 1/16 or 1/8 per cent) seem to many borrowers to place a ceiling on what they are willing to pay in the ECP market.

However, in the second quarter, the Bank of England was intervening heavily in an attempt to curb a sterling rally and, in order to neutralise the effects of this on the domestic money supply, it was selling a large number of commercial bills from its own holdings (the so-called bill mountain).

From about £11.7bn at the end of last year, holdings of bills by Bank's Issue Department holdings of bills had fallen to a mere £2.22bn at the end of May. These sales, it is believed, pushed up yields in the bill market, giving the sterling CP market a competitive edge as far as issuers were concerned.

However, after a sharp jump in April, growth again slowed in May, and was largely accounted for by increased holdings by financial institutions. Since a measure of the market's success is its ability to unlock investors other than banks, May's data represented a blow for those hoping for continued sharp growth in the market. The signals are thus still ambiguous.

An increasing number of companies have decided that, rather than launch a programme purely in sterling, it is often worthwhile adding a dollar option.

In both the sterling and the ECP markets, the long awaited shake-out of dealers has yet to occur, perhaps because of borrowers' unwillingness to embroil themselves in controversy.

Stephen Fidler

Roger Taylor

In the second quarter the Bank of England was intervening heavily in an attempt to curb a sterling rally

Multi-option facilities

Off-balance mechanism

BRITISH COMPANIES have been important borrowers in the London-based international capital markets this year. This is despite the fact that their bond and share-issuing activities in the international markets have been severely restricted by pressure from *their institutional shareholders.*

Their biggest activity has been in the rearrangement of their short-term funding lines. A vogue has developed for replacing long-standing credit lines with banks that have more flexible multi-option facilities which enable them to draw finance from a range of banks that are competing to advance them money.

Hence, the costs should be lower.

So far this year, some 40 British companies have arranged facilities totalling over £5bn.

The business began as a lucrative new instrument for banks, ever looking for new sources of business in the increasingly competitive international markets.

Banks and borrowers were particularly attracted to the mechanism because of the worldwide trend towards securitisation of corporate debt—the issue of tradable instruments instead of the straightforward bank loans. Moreover banks, under pressure to earn a better return on their capital, are keen to get as much business as possible off their balance sheets. Facilities such as these count as contingent liabilities, except insofar as they are actually drawn.

Already profit margins have been shaved by fierce competition to arrange such deals. Most recently, a £1bn financing for BTR, the industrial holding company, was subject to fierce competition between British and American banks, and the mandate was eventually won by Bankers Trust.

A multi-option facility, as the name suggests, consists of a range of instruments that the borrower can use to raise short-term funding.

Most facilities contain an underwritten credit which acts as a backstop: it would be drawn upon if other sources of financing failed. The interest margin for drawings on the credit essentially represents the highest rate that the borrower will pay through uses of the facility.

Usually, not all of a multi-option facility is underwritten—merely the "committed" portion. In the case of BTR, for example, only £500m is committed.

Typically, a facility will allow the borrower the ability to receive advances or funding through bankers' acceptances. These are arranged through a "tender panel" — a group of banks which may or may not be the same banks that underwrite the committed portion.

When the borrower wants to receive funding, he seeks bids from the tender panel. Members then bid competitively for the right to provide the financing, enabling the borrower to receive funds on the cheapest available terms.

Some facilities have included the ability to issue Euronotes—tradable short-term securities—through the same mechanism, but this has become less common because the international markets have shifted towards commercial paper issued through dealers and not tender panels.

Borrowers that are less well known in the capital markets, however, may still prefer the tender panel mechanism.

Increasingly, multi-option facilities are arranged in tandem with commercial paper programmes, both in the growing sterling commercial paper market and in Euro-commercial paper. These allow borrowers to issue short-term securities distributed by a few appointed dealers.

Just to add to the complexity, the committed portions of credits often include an "available" and an "unavailable" portion. The available portion can be drawn at any time, but the unavailable portion cannot — the paradoxical phenomenon of a loan upon which the borrower cannot draw. The borrower must instead give notice that he might want to draw, and becomes able to do so when the notice period is up.

The rationale for this is that *commitment fees* are lower on the unavailable portion of the credit. Some bankers argue that the unavailable portion is a contingent liability just as much as the available portion, and therefore should command the same fees. Others say, however, that a bank is in no immediate danger of having to advance the unavailable money and so the lower fees are justified. At any rate, most banks have acceded to this trend.

Borrowers, in replacing their traditional sources of finance, are usually nervous about upsetting the banks with which they have had relationships for many years. So the underwriting banks usually include most of those relationship banks. The deals are often quietly worked out with them.

Because of such concerns, British banks have captured most of the business of arranging multi-option facilities. Barclays, National Westminster and S. G. Warburg have dominated the field, and mandates have gone to a number of other British clearing and merchant banks. But some North American banks have also won with aggressive bids.

Alexander Nicoll

Debentures

Why revival is a distant hope

FEW MARKETS can have waited so long for a revival as the corporate debenture market. Once the bread-and-butter of stock market trading, issues are now about as fashionable as tripe and onions.

The idea of issuing debt secured on one or more of the assets of a company is as old as capitalism itself. But the moribund nature of the market in recent years stems back to the 1970s when interest rates soared and corporations grew chary about locking themselves in at double-digit rates.

As liquidity worries began increasingly to obsess corporate treasurers, gearing levels were rapidly issued and maturing debentures were not replaced.

In the eighties, funding options have become much more flexible than the old choice between an overdraft and a debenture. Banks have become more eager to provide medium-term finance to corporations, which makes the expense and hassle of issuing a debenture seem less worthwhile; sterling commercial paper issues, for example, offer corporations extremely flexible funding, on a medium term basis, at short term interest rates.

In any case, equity funding has tended to replace debt funding in the popularity stakes. After years of bull markets, share prices are buoyant, making the cost of issuing equity appear particularly cheap; in contrast, real interest rates are still at historic highs.

A company like Hazlewood Foods, which has made 20 acquisitions in the past year, is constantly issuing its own paper, not only because it believes that earnings will not be diluted but because using equity as consideration encourages the management of the acquired companies to continue to improve profitability.

Just as borrowers have lost enthusiasm for debentures, so have investors. It is hard to see what, in current market conditions could attract investors to debentures. With equities seemingly on a permanent upward path, why lock up your money for 10 years in a debenture? Not only do debentures need to be held long-term to be worthwhile investments, they are also relatively illiquid.

Pension funds have steadily reduced the proportion of gilts within their portfolios as equity returns have outstripped fixed income yields, and with greater attention paid to short term performance these days, a clutch of corporate debentures would not be designed to help fund managers leap up the league tables.

So with neither issuers nor investors over-enthusiastic about the market, only two sectors have seen much activity. Property companies have continued to tap the market, and indeed April saw the largest ever debenture issue in the UK—a £200m placing by Land Securities.

As the issue was fungible with two other Land Securities stocks, the total £400m issue is one of the biggest non-government stocks traded on the market. It was also notable for breaking the 10 per cent barrier—not with the coupon which was set at that psychologically important figure, but on the gross redemption yield which was 9.986 per cent, 75 basis points above the equivalent gilt.

Debenture issues are particularly attractive for property companies, because they match the long term nature of their assets. They also provide a fairly secure home for the long term funds of investment institutions.

But the recent surge in share prices of property companies, which has eliminated the traditional discount to asset values, does not hold out much hope for increased activity in the debenture market. Even the sleepier property companies are now starting to realise what can be achieved with their highly valued paper.

Nor are the long term prospects for the other active sector of the debenture market—water companies—much brighter. In two years time, when the water companies are privatised, they too will have the option of equity issues as a fund-raising mechanism. The chances must be that their output of debentures will decline.

The real boom at the moment is in convertible deals, ie, debt/equity mixtures. Because of the equity kicker and the potential for profits offered to investors if the share price moves substantially, companies are able to reduce the interest cost of convertible debt.

Some would argue that convertible issues have a very high hidden cost, in terms of the dilution effect; but while the market is bubbling, few companies seem to have stopped too long to consider the argument.

Large companies have also used convertible issues as a means of attracting overseas investors without incurring the wrath of UK institutions jealously guarding their pre-emption rights. Convertibles have been one of the fastest expanding sectors in the Euromarket, and the more traditional fixed and floating rate Eurobond issues have continued to attract UK corporations.

Is there any hope for a revival in the debenture market? It would seem to need three conditions — lower long-term interest rates; an inverted yield curve, encouraging corporations to lock in long-term funding; and either because of a bear equity market, or on the part of investors to accept continued issues of paper, a change in fashion away from equity funding.

A congruence of all three factors appears unlikely in the short term, and the rebirth of the debenture market remains a distant hope.

Philip Coggan

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Taxation

At ease with the new system

FOLLOWING COMPLETION of the 1984 reforms, the relatively few changes to the corporate tax regime in 1987 came as no surprise.

Many will look to the 1988 Budget to lay out a radical approach to the tax system over the life of the new Government. Any such measures, however, are more likely to affect the personal than the corporate sector.

Companies have come to terms with the new corporate system mapped out in 1984. Stock relief is long gone. Capital allowances, through which a proportion of expenditure on certain business assets may be deducted in calculating taxable profits, remain available for the same categories of asset. The Government has shown no inclination to narrow or broaden their scope.

The system is, however, shorn of the large initial write-offs. New expenditure on industrial and agricultural buildings is written off at 4 per cent per annum over 25 years; expenditure on buildings within an enterprise zone retains, as an oasis in an otherwise barren tax landscape, its privilege of an immediate 100 per cent write-off.

No first year allowances are available on machinery and plant. Allowances operate wholly on a pool basis: current expenditure is added to the unrelieved balance of previous expenditure; sale proceeds are deducted, and a 25 per cent allowance for the year is calculated on what remains.

With time, the pool will grow to a point where the 25 per cent allowance equates more with actual expenditure for the period. An alternative option, however, now available is to "de-pool" short life assets. Machinery and plant, sold or scrapped within up to five years, may be taken out of the pool, and its net cost to the business may then be relieved over its actual business life.

The distinction between capital expenditure on the acquisition of new assets and revenue expenditure (on the repair of old assets) has taken on new importance. Revenue expenditure continues to obtain an immediate 100 per cent write-off. R & D expenditure, including expenditure on new assets for research and development, also continues to be favoured in this way.

The system in its current form remains vulnerable to inflation. Given a continuing emphasis on further reductions in the RPI, the Government is unlikely to see this as a problem that needs to be addressed. The effect of the changes on the overall well-being of the leasing industry may not have been as severe as was suggested in some quarters in 1984. The basis for the flourishing finance based lease business was removed, but the industry has adapted to give operating lease and hire purchase arrangements greater prominence.

SSAP 21, issued in 1984, requires lessee companies to capitalise leased equipment, while lessors accounted for the finance lease as a loan. One recent trend that is causing concern is the growth in off balance sheet companies, for example, to finance stock or capital assets. The use of such companies enables such assets and obligations to be kept out of the financial statements of a company.

While the off balance sheet vehicle may hold the assets and liabilities for the benefit of the company in question, it does not have to be consolidated. The company's gearing ratio appearing from its balance sheet is accordingly improved. Changes in accounting practice designed to bring these forms of finance back on balance sheet, are currently under discussion.

The full corporate tax rate remains at 35 per cent in 1987. For companies with profits of £100,000 or less, the rate of tax on profits becomes 27 per cent, in line with the basic rate. A marginal rate of 37 per cent applies to profits between £100,000 and £500,000.

The gap between the top income tax rate of 60 per cent and the full corporate tax rate has come more to resemble that which existed up to 1979 between the 83 per cent earned income rate and the 52 per cent corporate rate. The incorporation of business is encouraged accordingly, although this has not stopped the publication of a consultative paper on the disincorporation of business.

The imputation system of corporation tax, under which tax paid by the company is credited through the ACT system against a resident individual shareholder's basic rate income tax liability on dividends paid, continues unaltered. The narrowing of the gap between the basic rate and corporate tax rates means that a higher proportion of the company's tax is credited to the shareholders.

As the basic rate falls, however, this gap increases, and this will reach 10 percentage points should the basic rate be brought down to 25 per cent next year. Nevertheless, the continued reduction in the small companies rate means that such a company may still impute to its shareholders the full amount of the tax it pays. The gap between corporate and basic income tax rates is an important factor in the distinction between debt and equity financing.

Previously, a company's chargeable gains were taxable at 30 per cent. That tax could not be imputed to shareholders through the ACT system. The prediction in last year's corporate finance survey, that corporate gains would be taxed at full corporate tax rates and the tax be imputed to shareholders, was fulfilled in this year's Budget. While this may eliminate the anomalous ACT treatment of the previous system, the increase in rate from 30 to 35 per cent will be unwelcome to many companies; only small companies will see the tax rate on gains fall to 27 per cent.

That apart, the capital gains tax system has received scant attention from the Chancellor in the last two years. The complexity of the system, and some of the unexpected effects of allowing losses to be created by inflation, suggest that some action will be taken in the life of the current Government. A return to some form of short term gains tax may be the result.

The tendency is to look to direct taxes as having the major impact on corporate finances. The capital markets are, however, equally sensitive to changes in indirect taxes. The market has had to come to terms with the introduction of stamp duty reserve tax, and with the changes in stamp duty in relation to equity issues. Generally, straight forward debt issues do not attract stamp duty or stamp duty reserve tax.

The major recent change has, however, been in the VAT regime. The tightening of the partial exemption rules has meant the loss of an input tax deduction for expenses attributable to debt or equity issues, leaving an unwelcome additional 15 per cent cost with the issuer. Underwriting and management costs for new issues by the UK and other EEC issuers, as opposed to secondary offerings have however become exempt supplies not attracting VAT.

Malcom Gammie

Profit required to provide 10 per cent return on £100 investment

	Debt finance Interest	Equity (35% CT rate) Dividend	Equity (27% CT rate) Dividend
Payment by company	7.3	7.3	7.3
Tax deducted at source	2.7	0	0
ACT credit to shareholders	0	2.7	2.7
"Gross" receipt by lender/shareholder	10.00	10.00	10.00
Tax on company income to service interest/dividend	0	3.93	2.7
Less ACT offset	0	(2.7)	(2.7)
Net tax payment by company	0	1.23	0
Required profit by company	10	11.23	10

Mr Jim Martin: some potentially big deals

The Scottish scene

The enterprise culture begins to show itself

"WE GET business here differently from the way they do in the south," says Jim Martin, the Edinburgh local director of Investors in Industry (3i). "Down there, there are lots of companies coming and asking us for finance. Here we have to approach companies, to encourage people to be entrepreneurs. The courting period tends to be longer."

It is a theme one hears frequently during an exploration of Scotland's distinct corporate finance sector, which is based largely in Edinburgh.

Jim Martin attributes the problem to the much slower growth of the "enterprise culture" in Scotland. Companies, he says, are more cautious than those in the south about expanding, and about seeking or upgrading market listings, a criticism that applies in particular to family-owned concerns.

3i campaigns energetically to make companies aware of the opportunities available to them, and in March set up a £50m fund to finance management buy-outs. Though no deals have yet been concluded, 3i has already had about 100 approaches from which "some potentially very big buy-outs" have emerged, Mr Martin says.

In the year to March 31 1987 new investments by 31 in Scotland totalled £24m—an increase of £7m on the previous year.

Ian Macpherson, deputy managing director of the British Linen Bank (BLB), the merchant banking arm of the Bank of Scotland, is a little more upbeat. "Companies are becoming a bit more assertive. There's a stirring in Scotland that wasn't there two years or 18 months ago. Companies are thinking of acquiring each other or diversifying."

In the superb Edinburgh drawing room of Noble Grossart, Angus Grossart, the managing director, probably the doyen of Scottish financiers, has criticisms of the standards of senior management in some Scottish industrial and services companies, but he believes that some of them are right to eschew the glamour of listings for their own sake.

"There's a cult of the USM that's often a wrong time priority," he says. "Companies should go public on a larger footing. There is a surprising number of private companies in Scotland that could have had a listing but have not gone to the USM." For many of them, he upholds the merits of private placings with institutions as a way of raising funds.

If the volume of corporate finance business in Scotland amounts to less than what Scotland's one-tenth share of the UK population would justify, that does not mean that the sector itself lacks buoyancy. BLB, whose profits rose 84 per cent in the year to January 31 1987, to £7.8m, not only views the Scottish scene with some optimism, but anyway does 65 per cent of its overall business outside Scotland. It has a number of subsidiaries whose role is to invest in promising companies: recently one of these, Melville Street Investments, was listed on the stock exchange and disclosed holdings valued at £23m in 51 unquoted companies.

Charterhouse, the merchant banking arm of the Royal Bank of Scotland, has an important presence in Scotland. Its venture capital operation, Charterhouse Development Capital, is partly run from Edinburgh, has £30m invested in 453 companies, and has been involved in several management buy-outs. But much of the bank's strength lies in its activities in other parts of Britain.

Noble Grossart has long believed that Edinburgh financiers must travel if they are to do business; and it does well not just in the rest of the UK but particularly in the US where it is involved, for example, in property transactions in California. Mr Grossart is on the board of Alexander and Alexander, the New York insurance brokers.

A newer addition to the scene is Quayle Munro, based in Charlotte Square, Edinburgh, which with a staff of just 12 provides a range of corporate financial services. It manages East of Scotland Industrial Investments, which has stakes in a number of unquoted Scottish companies.

Founded in 1984, Quayle Munro received a considerable boost last year when it handled, along with Hoare Govett, a £26m private placing for the Glasgow-based waste disposal company Shanks and McEwan to help it acquire Hanson Trust's subsidiary London Brick Landfill—a company considerably bigger than Shanks and McEwan itself.

Michael Munro, one of the company's two executive directors, sees an important niche for an operation of Quayle Munro's size in corporate finance. "We offer a personal, director to director service to companies," he says. "The director of a small company much prefers dealing with a fellow director or the managing director himself, rather than with an underling from a big organisation." Quayle Munro is developing business in parts of northern England, such as the Leeds-Bradford area.

Quayle Munro has formed a consortium called the Buy-Out Syndicate, in partnership with the Edinburgh stock brokers Bell Lawrie and the Glasgow-based Clydesdale Bank, to help management teams in Scotland carry out management buy-outs. It successfully handled a management buy-out of a house-building subsidiary of the Edinburgh-based company Christian Salvesen, but an attempt to acquire for its management Caledonian Airmotive, the aero-engine subsidiary of British Caledonian, was not successful.

Quayle Munro is not alone in finding that, in the current bull market, listed companies can often put up considerably more money than can be assembled on behalf of a management team. It is a point noted by Jim Martin, of 3i, and Robert Smith, managing director of Charterhouse Development Capital.

"Unfortunately we have to use real cash, rather than highly-rated paper," says Mr Smith. In theory, things might improve for management buy-outs if the market goes down, but, as Mr Smith says, "a lot of MBOs are predicted on coming back to the market at a later stage, so if that outlet goes the whole thing becomes less attractive."

Quayle Munro expects to act for Shanks and McEwen when next year, the company should come to the stock exchange. This would be another feather in its cap, but the fact remains that, though BLB and Noble Grossart are frequently involved in placings, Scottish companies do not turn automatically to Scottish corporate ginance houses when they seek stock exchange listings: Christian Salvesen used a London merchant bank in 1985, as a few weeks ago did Babygro, the Fife-based clothing manufacturer founded on a management buy-out which was backed by several Scottish financial institutions, including 3i and Melville Street Investments. It went to S. G. Warburg. As usual Scotland has to combat the pull of the south east.

James Buxton